

Anti-Corruption in Tanzania: A political settlements analysis

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Executive summary

Tanzania has achieved significant growth performances since 2005, despite poor scores on its governance indicators, especially with respect to the *control of corruption* and *government effectiveness*. The development of a more diversified and productive economy is both the outcome, and the main driving force, behind incremental improvements in the governance performances. The possibility of triggering this circular and cumulative process of structural transformation requires both an understanding of the evolution of the *political settlement* in Tanzania, and the identification of the different *types of corruption* hindering development outcomes in the different sectors of the economy. The paper offers an in-depth analysis of these two sets of issues, and their interdependencies, with a specific focus on the recent evolution in the political settlement since the election of the new President John Pombe Magufuli in October 2015.

The paper provides an introductory overview of the current state of the Tanzanian economy, with a focus on the main features of its productive structure. Against this background, we then develop an in-depth political settlement analysis of Tanzania since its independence. In particular, we concentrate on the ongoing transformation of the political settlement under the new President Magufuli and his anti-corruption approach, given the existing legal and institutional framework. While the political settlement is still in flux, we provide evidence of the emerging trends in both governance interdependencies and private sector, and sketch a set of potential future scenarios. The analysis of these emerging trends suggests that Magufuli's presidency has been gradually shifting from what we have called a "Bulldozer phase" to a "Builder phase". Specifically, the first phase of his presidency was characterised by: (i) centralisation of power; (ii) an authoritarian approach towards the private sector; (iii) increasing pressure on the oppositions and media. However, the second phase of Magufuli's presidency has been increasingly characterised by: (i) institutionalisation of power within CCM, and coalition building; (ii) disciplining rents, with a "pragmatic approach", including direct involvement in deals making; (iii) systematic repression of the oppositions and the media.

We argue that Magufuli's anti-corruption approach reflects the nature of his *vulnerable authoritarian coalition*, and thus, the current political settlement in Tanzania. Notwithstanding, the paper provides evidence of the President's attempts to shift towards a more *developmental state coalition* configuration in the second phase of his Presidency. While we acknowledge Magufuli's anti-corruption efforts, we also point to a number of potential weaknesses in his mainly 'vertical approach' to anti-corruption. Thus, we identify a number of strategic opportunities for complementing vertical anti-corruption measures with a more 'horizontal' approach characterised by *incremental, sector specific anti-corruption strategies*. The paper concludes by sketching the Anti-Corruption Evidence programme's approach to developing *feasible* and *high impact* anti-corruption strategies, and by providing some introductory references to the envisioned strategic opportunities and criteria for how chosen sectors have been selected.

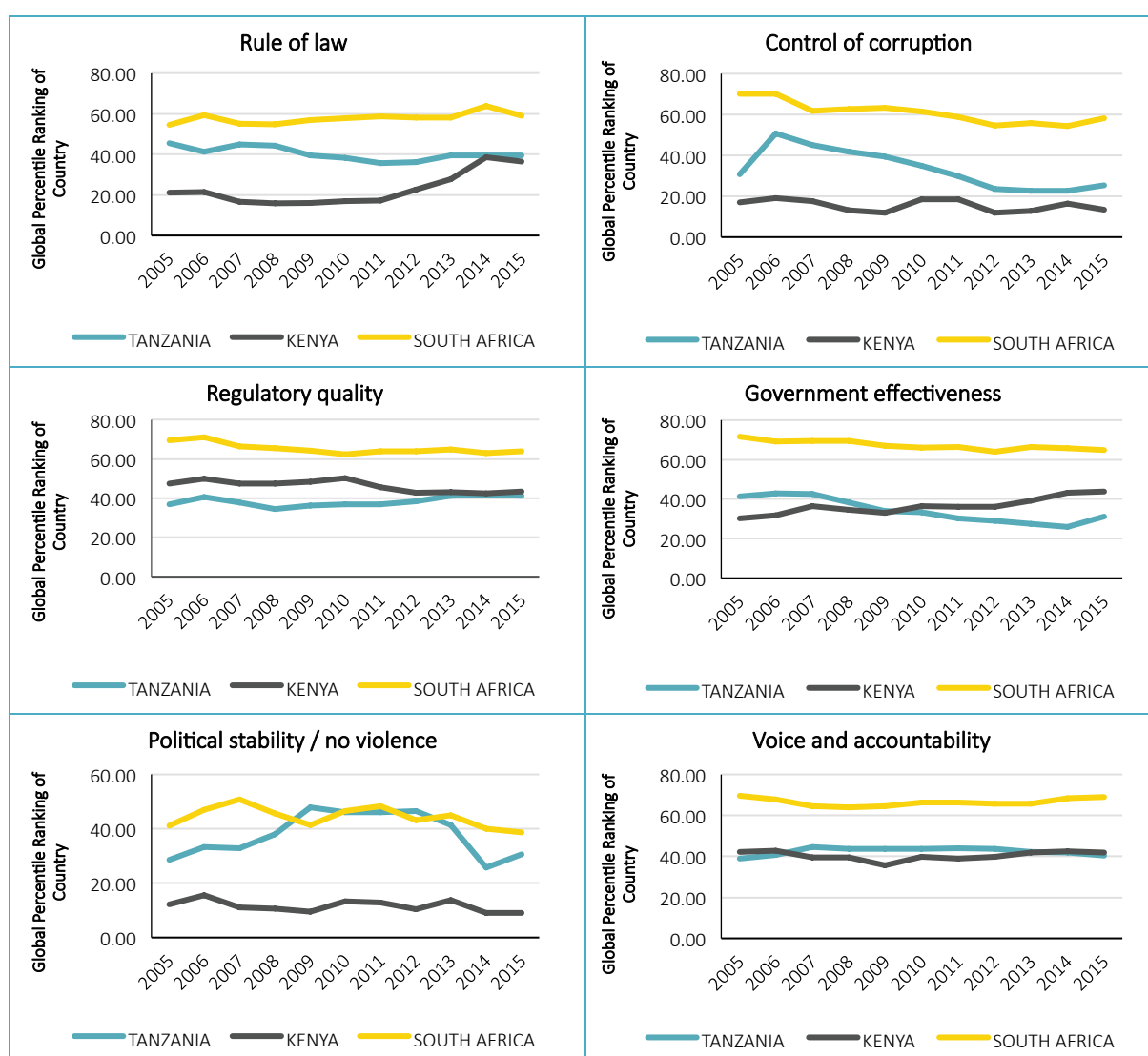
Acknowledgments

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1. Introduction

Tanzania has achieved significant growth performances since 2005, despite poor scores on its governance indicators, especially the *control of corruption* and *government effectiveness* indicators (Figure 1). If we benchmark Tanzania against its two main regional comparators - Kenya and South Africa - we find that since 2005 Tanzania has shown worse scores in government effectiveness and a dramatic negative trend in the *control of corruption* indicator. On the *rule of law* indicator, Tanzania also scores much lower than South Africa, but just above Kenya. However, while Kenya has improved its rule of law since 2011, Tanzania is on a downward trend. Tanzania also has the worst scores in *regulatory quality* and has not shown any signs of improvement since 2005. Similarly, the indicator for *voice and accountability* has not improved, although it is comparable to Kenya. Tanzania has traditionally performed well in terms of *political stability*, and in fact even outperformed South Africa in the late 2000s. However, the political stability has declined since 2013.

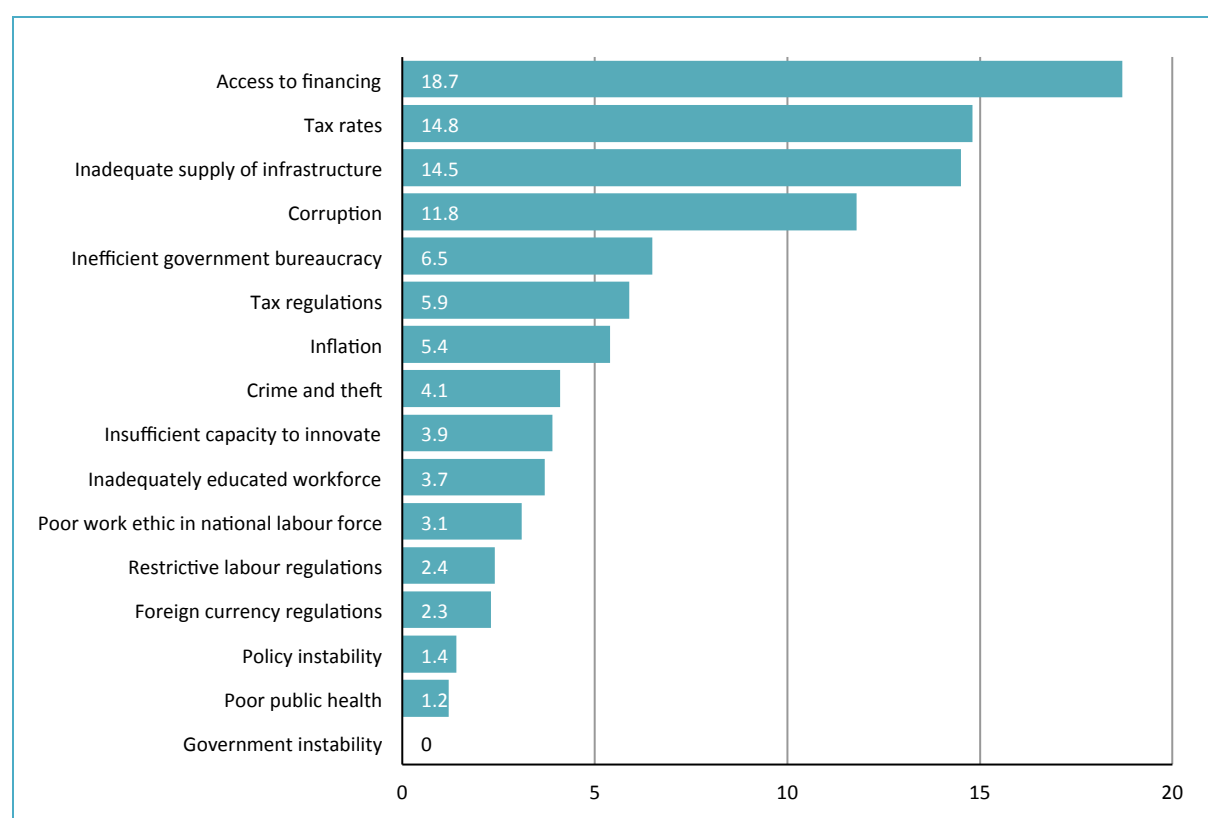
Figure 1: World Governance Indicators, Tanzania and comparators, 2005-2015



Source: World Governance Indicators 2016

The business sector in Tanzania has identified corruption as one of the top five constraining factors in the country (Figure 2). Although in the World Economic Forum's Executive Opinion Survey, corruption is only the fourth most important factor hindering businesses, a number of other factors – for example, inadequate supply of infrastructures – are also directly affected by corruption. Thus, the impact of corruption can be much more significant than the survey suggests. The pervasiveness of corruption, and the need for effective anti-corruption strategies, was also highlighted by the very recent reports and presentations produced by the Tanzanian National Business Council (TNBC, 2017) and the Tanzanian Private Sector Foundation (TPSF, 2017) at the recent private-public sector dialogue hosted by TNBC (10 May 2017). A number of sectoral priorities were highlighted, including tax reforms, trade and custom rules enforcement, smuggling and counterfeits, agricultural inputs and land.

Figure 2: Most problematic factors for doing business in Tanzania, 2015



Source: Executive Opinion Survey (World Economic Forum 2016)

In 2000 the Tanzanian government articulated its long-term agenda in the *Tanzania Development Vision 2025*. Since then, medium and long term strategies and development plans have increasingly stressed that the quality of economic growth – its inclusiveness and sustainability – will require a structural transformation of the economy. The development of a more diversified and productive economy is both the outcome of, and the main driving force behind, incremental improvements in the governance performances, in particular control of corruption (Khan, 2006 and 2010; Khan et al, 2017). The possibility of triggering this circular and cumulative process of structural transformation requires both an understanding of the evolution of the political settlement in Tanzania, and the identification of the different types of corruption hindering development outcomes in different sectors of the economy.

Building on this research framework and agenda, the paper provides an introductory overview of the current state of the Tanzanian economy, with a focus on the main features of its productive structure. Against this background, we then develop an in-depth political settlement analysis of Tanzania since its independence. In particular, we concentrate on the ongoing transformation of the political settlement under the new President Magufuli and his anti-corruption approach, given the existing legal and institutional framework. While the political settlement is still in flux we provide evidence of the emerging trends in both governance interdependencies and private sector, and sketch a set of potential future scenarios.

We argue that Magufuli's anti-corruption approach reflects the nature of his *vulnerable authoritarian coalition*, and thus, the current political settlement in Tanzania. Notwithstanding, the paper provides evidence of the President's first attempts to shift towards a more *developmental state coalition* configuration in the second phase of its Presidency. While we acknowledge Magufuli's anti-corruption efforts, we also point to a number of potential weaknesses in his mainly 'vertical approach' to anti-corruption. Thus, we identify a number of strategic opportunities for complementing vertical anti-corruption measures with a more 'horizontal' approach characterised by *incremental, sector specific anti-corruption strategies*. The paper concludes by sketching the ACE approach in developing *feasible* and *high impact* anti-corruption strategies and by providing some introductory references to the envisioned strategic opportunities and criteria for sector selection.

2. Major sectors and drivers of growth in Tanzania

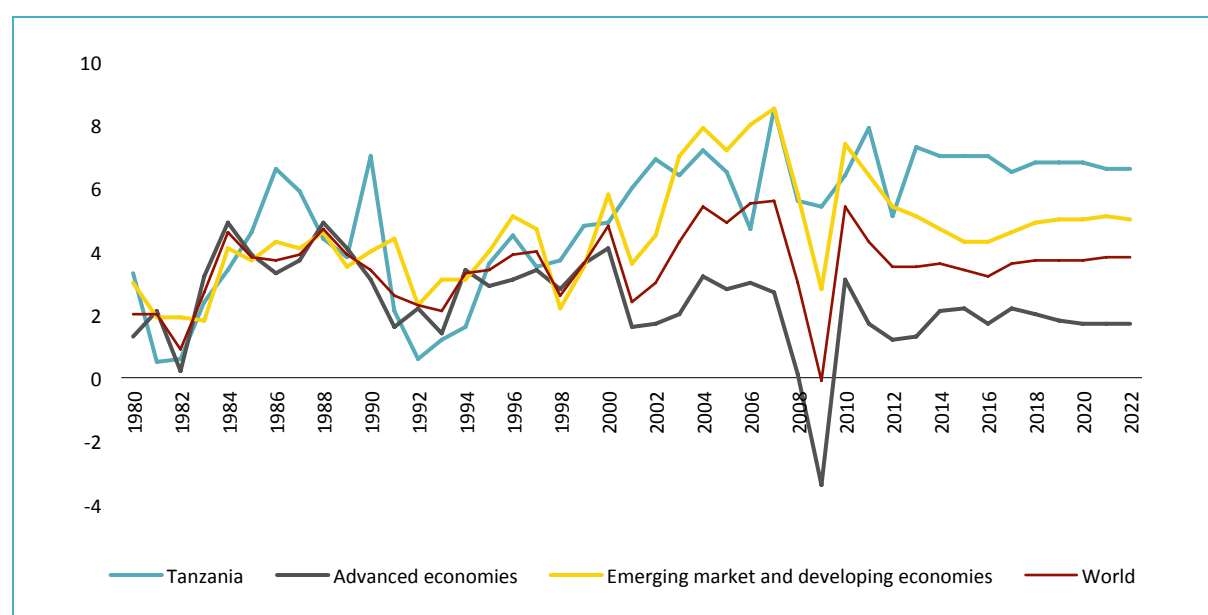
Tanzania is a fast growing economy, with rates above the average in sub-Saharan Africa since 2005, and good macroeconomic performances (IMF, 2017). Economic growth was robust during the first half of 2016 and is projected to remain at about 7 percent until 2020 (Table 1 and Figure 3).

Table 1: Macroeconomic indicators, 2014/15 – 2020/21

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Real GDP growth(%)	7	7	6.9	7	6.9	6.7	6.5
Inflation (YOY, %, end-period)	6.1	5.5	5	5	5	5	5
Overall fiscal balance (cash basis,% of GDP)	-3.3	-3.5	-4.6	-4.6	-4.5	-4.5	-3.7
Government capital spending (% of GDP)	4.4	4.5	9.7	8.8	8.7	8.9	8.1
External current account balance (% of GDP)	9.8	-5.6	-7.5	-7.5	-7.4	-7.4	-6.8
Gross international reserves (months of next year's imports)	4.5	3.5	3.8	3.9	4.1	4.2	4.3

Sources: Tanzanian authorities and IMF staff projections (IMF, January 2017)

Figure 3: Tanzania and comparators: Real GDP Growth benchmarking

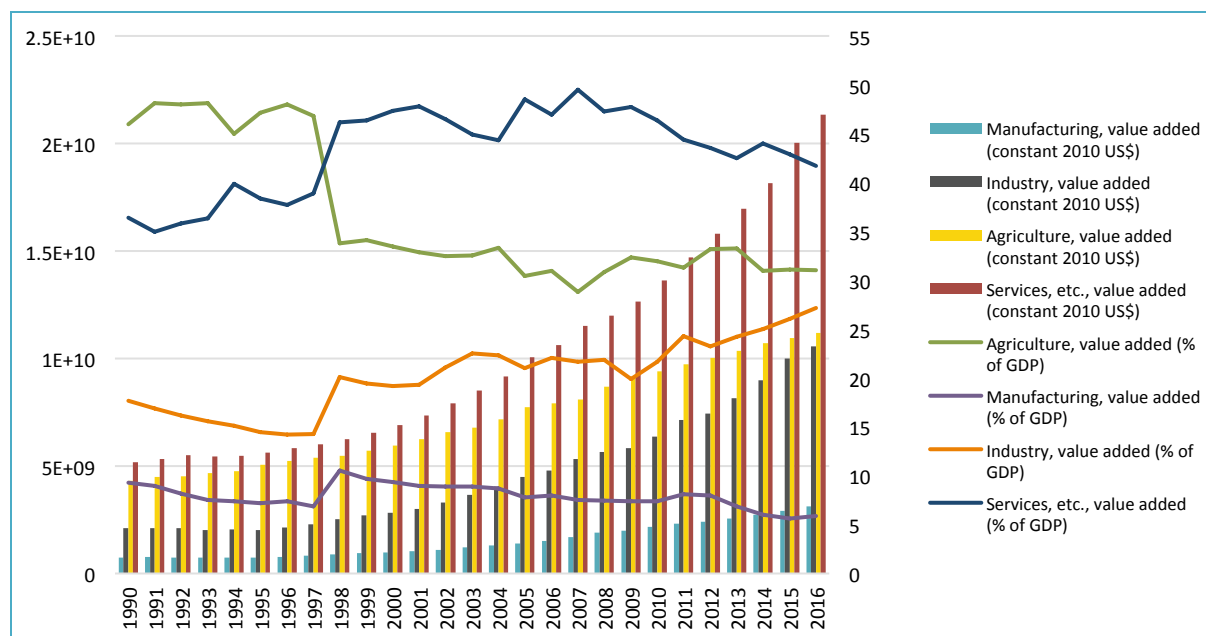


Source: Author's elaboration based on World Development Indicators, World Bank

While the quantum of growth is certainly important, the *Tanzanian Development Vision* (TDV) and the *Long Term Perspective Plans* (LTPPs) recognise that manufacturing-led structural transformation is the only pathway for a more inclusive society, sustained economic growth and sustainable development. The *Second Five Year Development Plan*

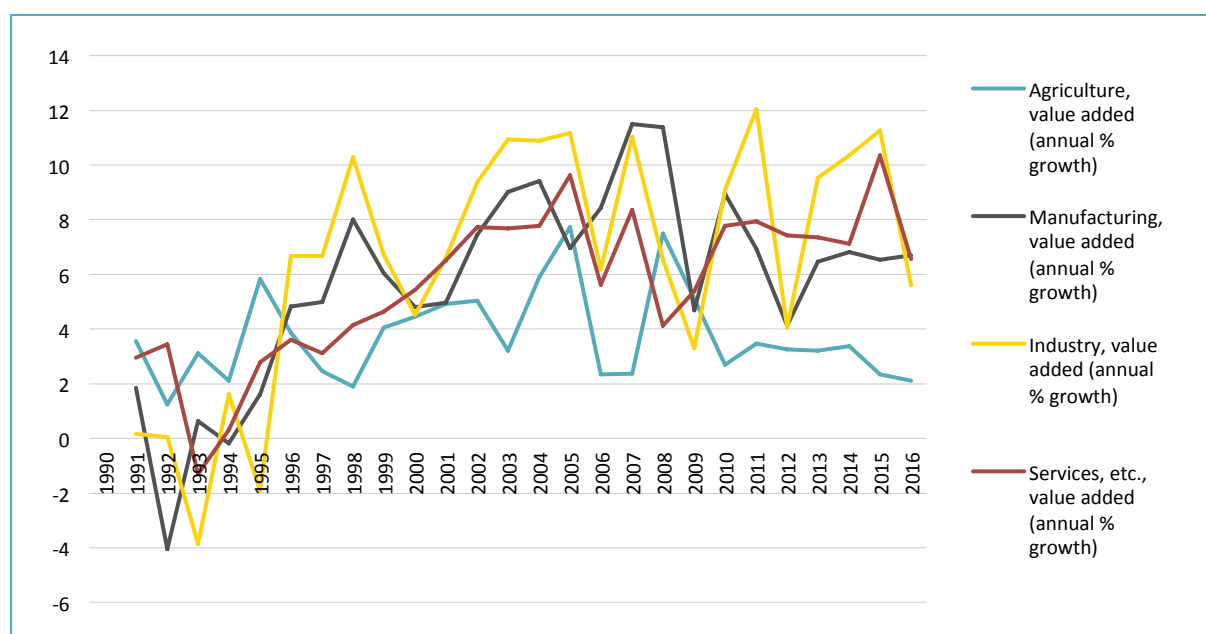
(FYDP II 2015/16 – 2020/21) is centred on the need to boost industrialisation and productivity growth across the economy, especially targeting light manufacturing and resource-based industries. Indeed, Tanzania’s economy is still mainly based on the agricultural sector, contributing 23 percent of the country GDP, and employing approximately two-thirds (67 percent) of the workforce (Figure 4).

Figure 4: Sectoral value addition and contribution (%) to GDP



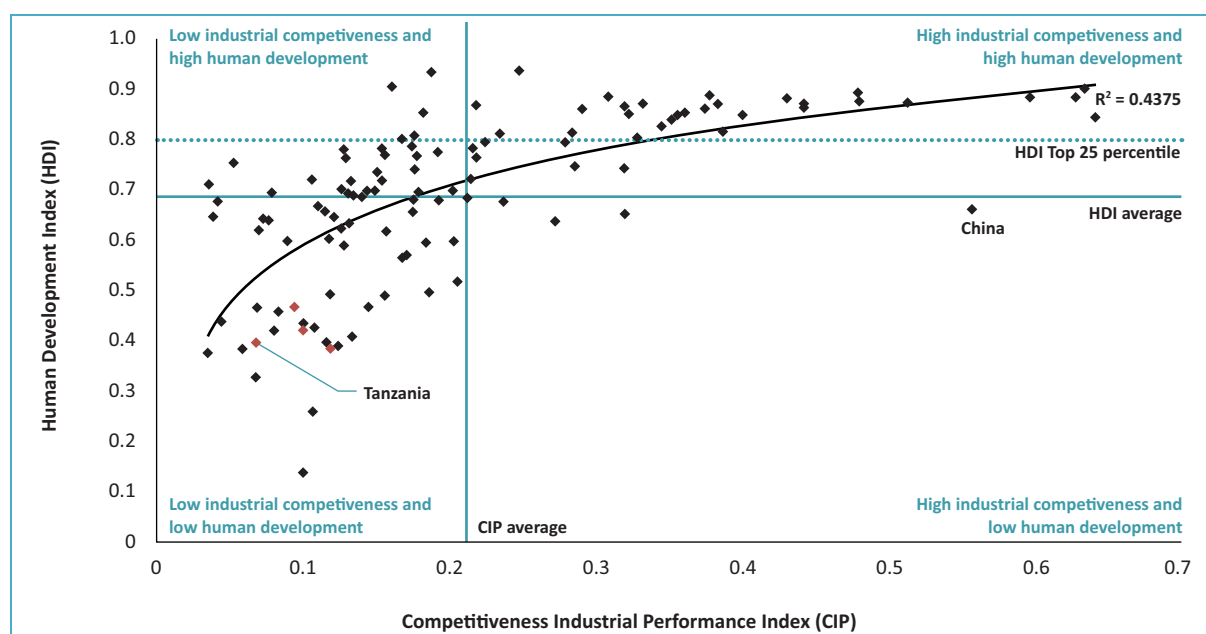
Source: Author's elaboration based on World Development Indicators, World Bank

The sector also contributes approximately 65 percent of inputs to the industrial sector, especially agribusiness and the food industry (URT, 2016). Over the last years the agricultural sector has been growing at 4 percent per annum, well below the 6 percent target set in the first *Five Year Development Plan*, 2010-15. These performances are partially due to bottlenecks within the agricultural sector – e.g. access to quality inputs, finance and commercialisation challenges – but also inter-sectoral issues such as import dependence, smuggling of key commodities like rice and sugar, and limited processing capabilities in agribusiness (Figure 5).

Figure 5: Sectoral value added annual growth rates (%)

Source: Author's elaboration based on World Development Indicators, World Bank

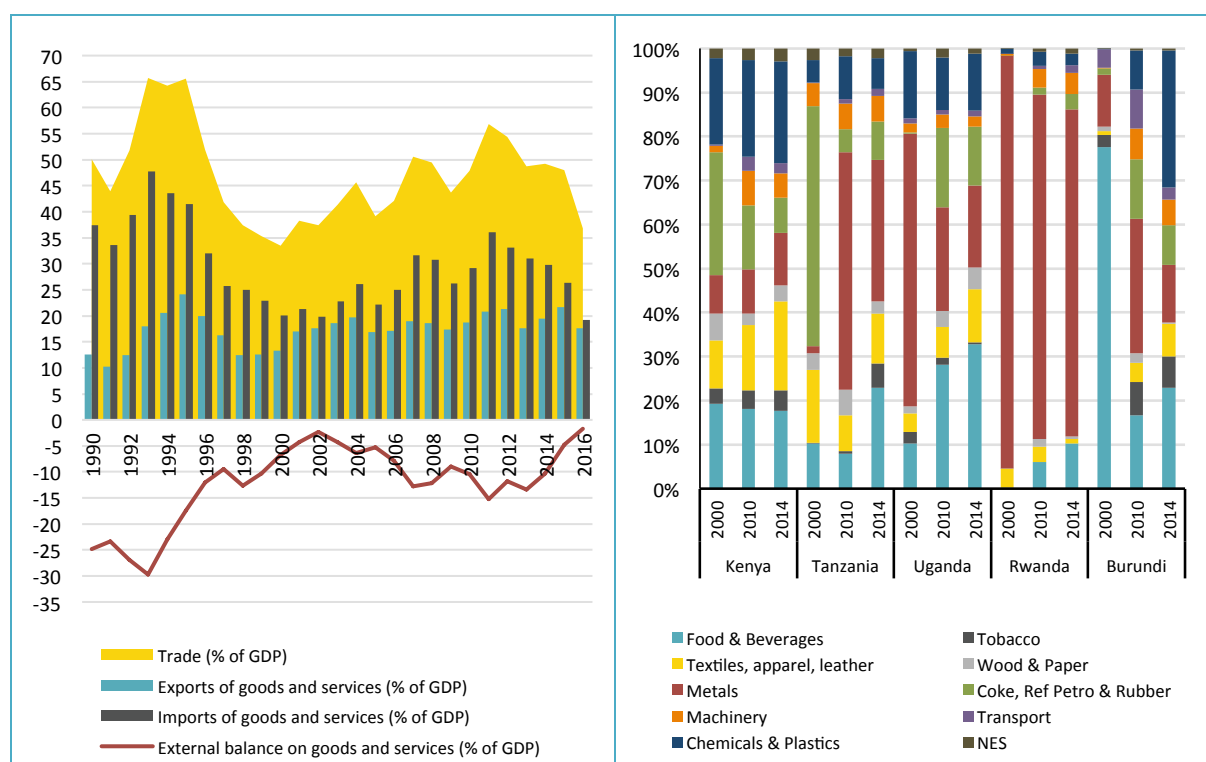
The twin policy goal of the FYDP II is to create – both directly and indirectly – more and better jobs via manufacturing development and the industrialisation of the agricultural sector. This policy agenda is backed up by compelling evidence on the nature of development as a “process of production transformation, led by the expansion of collective capabilities and resulting in the creation of good quality jobs and sustainable structural change” (Andreoni and Chang, 2017). As Figure 6 shows, countries who managed to reach a high level of human development (UNDP Human Development Index) are also those who managed to reach high level of industrial competitiveness (UNIDO Competitive Industrial Performance Index). This correlation points to the intrinsic relationships linking social development and production transformation. Triggering such production transformation in the Tanzanian context means: (i) manufacturing agrarian change in the rural areas (Kay, 2009; Andreoni, 2011); (ii) diversifying the economy along different industrialisation pathways; (iii) supporting the development of a local production system (Andreoni, 2018); (iv) developing export capabilities towards higher quality products and beyond mineral exports; (v) exploiting domestic and regional market opportunities for industrial learning (Andreoni, 2017; EAC, 2017).

Figure 6: Relationship between industrial development and human development, 2010

Source: EAC Report, 2017; Author's adaptation based on indicators computed by UNDP and UNIDO, 2010

Manufacturing development is the most fundamental engine of structural transformation, as it triggers productivity increases across all sectors of the economy via backward and forward linkages, technological innovation and organisational capabilities development (Hirschman, 1958; Kaldor 1967; Andreoni and Scazzieri, 2013; Andreoni and Chang, 2017; Khan, 2017; Haraguchi, 2017; Andreoni, 2018). After a decade of manufacturing upsurge, Tanzania is today at a crossroad (MITI, 2016). Despite the upward trend of its manufacturing value added (MVA) per capita, it remains significantly lower than Kenya. Moreover, the overall contribution of the manufacturing sector to GDP is still below 10 percent (Figure 7).

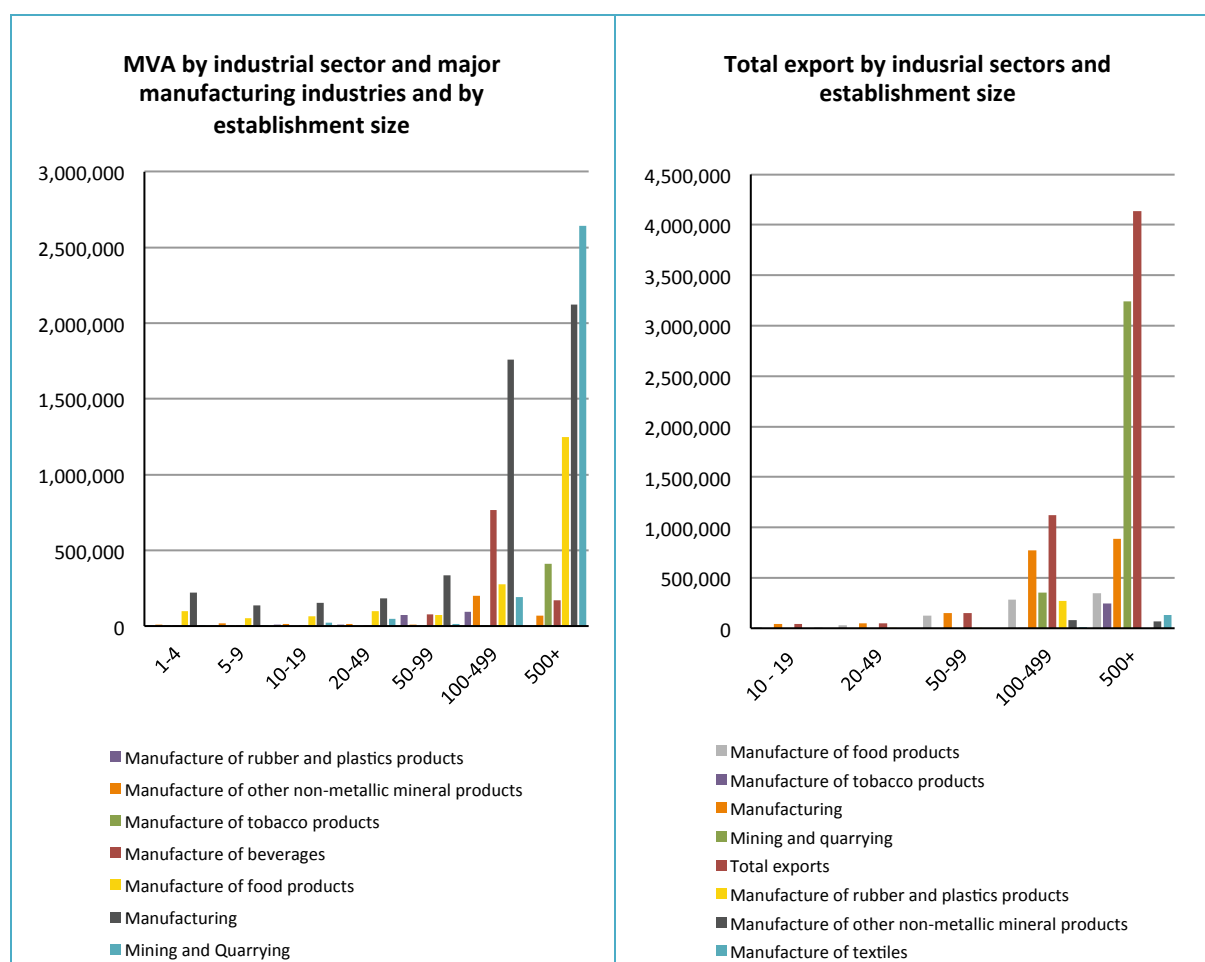
Manufacturing firms' capacity to increase value addition and diversify their production output are also lagging behind, as revealed by Tanzania's export performances (Figure 7). The share of manufactured products in total exports has increased thanks to some positive trends in food, beverages, tobacco and fixed vegetable oil; however, Tanzania still depends largely on gold, copper and precious metals export (around 35 percent of total export). Tanzania's penetration in its two main regional markets (EAC and SADC) remains also limited and negative in terms of its balance of trade and regional value chain integration, for example in the cotton and textile industries (MITI, 2016 and EAC, 2017). The over-dependence on imports of goods and services remains a structural problem, although imports have been declining since 2011.

Figure 7: Balance of trade and export basket composition, 2000-2010-2014

Source: Author's elaboration based on World Development Indicators, UNCTAD and EAC Report, 2017.

Tanzania's poor performances are driven by multiple interdependent factors, among which five are worth mentioning. First, the domestic production system is disarticulated, that is, there are no signs of increasing development of backward and forward linkages between different sectors of the economy¹. Moreover, the Tanzanian production system presents a "dualistic structure" (Andreoni, 2017 and 2018). Around 80% of the value addition in manufacturing (as well as in mining) is produced by firms with more than 100 employees, while the rest remain excluded and operate in a semi-informal regime (Figure 8). The majority of these firms are also regionally concentrated around Dar es Salaam and Morogoro. With the exception of beverages, across all sectors, the lack of medium-size firms – the so called "missing middle" – impedes generating (and distributing) value along the value chains, also in terms of employment generation. Export activities are even more concentrated, in both manufacturing and mining, among large establishments (see also Sutton and Olomi, 2012).

¹ Andreoni in (MITI, 2016) and Andreoni (2017) provide a complete production linkages analysis (PLA) of the Tanzanian economy based on the World Bank EVAD database.

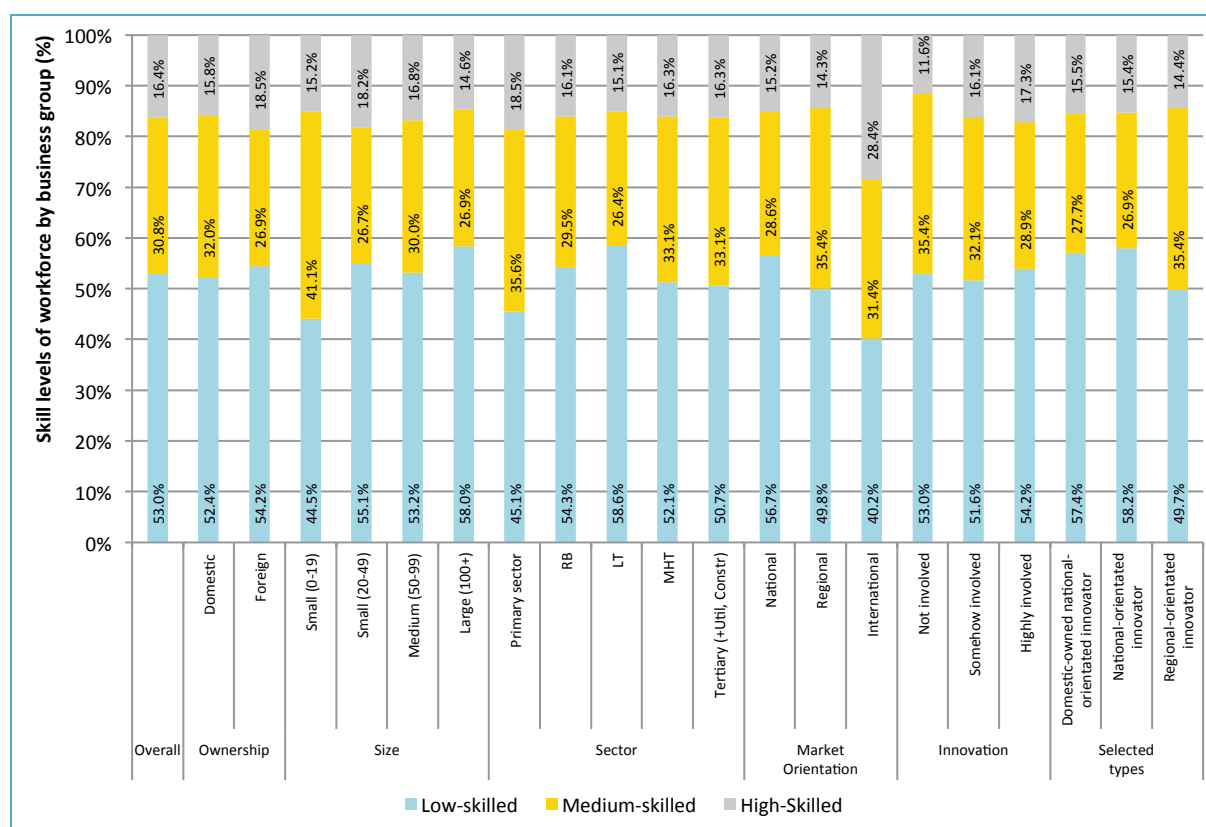
Figure 8: MVA and export performances by establishment size, Tanzania 2013

Source: Andreoni, 2017; based on National Bureau of Statistics (Nbs), Tanzania

Investments in education and, more critically, technical skills, have been extremely low and ineffective in both vocational education and training and higher level education, leading to a structural shortage of technicians and engineers. The level and availability of sector-specific skills profile in the private sector remains overwhelmingly low, although foreign and Medium and High Tech (MHT) firms have implemented a number of on-the-job training schemes (Figure 9)². More skills, higher levels skills and different kinds of skills are needed to enhance Tanzanian industrial competitiveness. While the supply of skills is important, the increasing demand for them is equally important. Demand for skills comes from the expansion and efficient utilisation of the existing production capacity, as well as the attraction of new domestic and foreign investments. These investments are critical to increase skilled workforce productivity and develop organisational capabilities in manufacturing industries (Andreoni, 2014; Khan, 2017).

² Andreoni in (MITI and UNIDO, 2012) provides an in-depth analysis of skills gaps and mismatches in Tanzania, based on a survey of 130+ manufacturing firms.

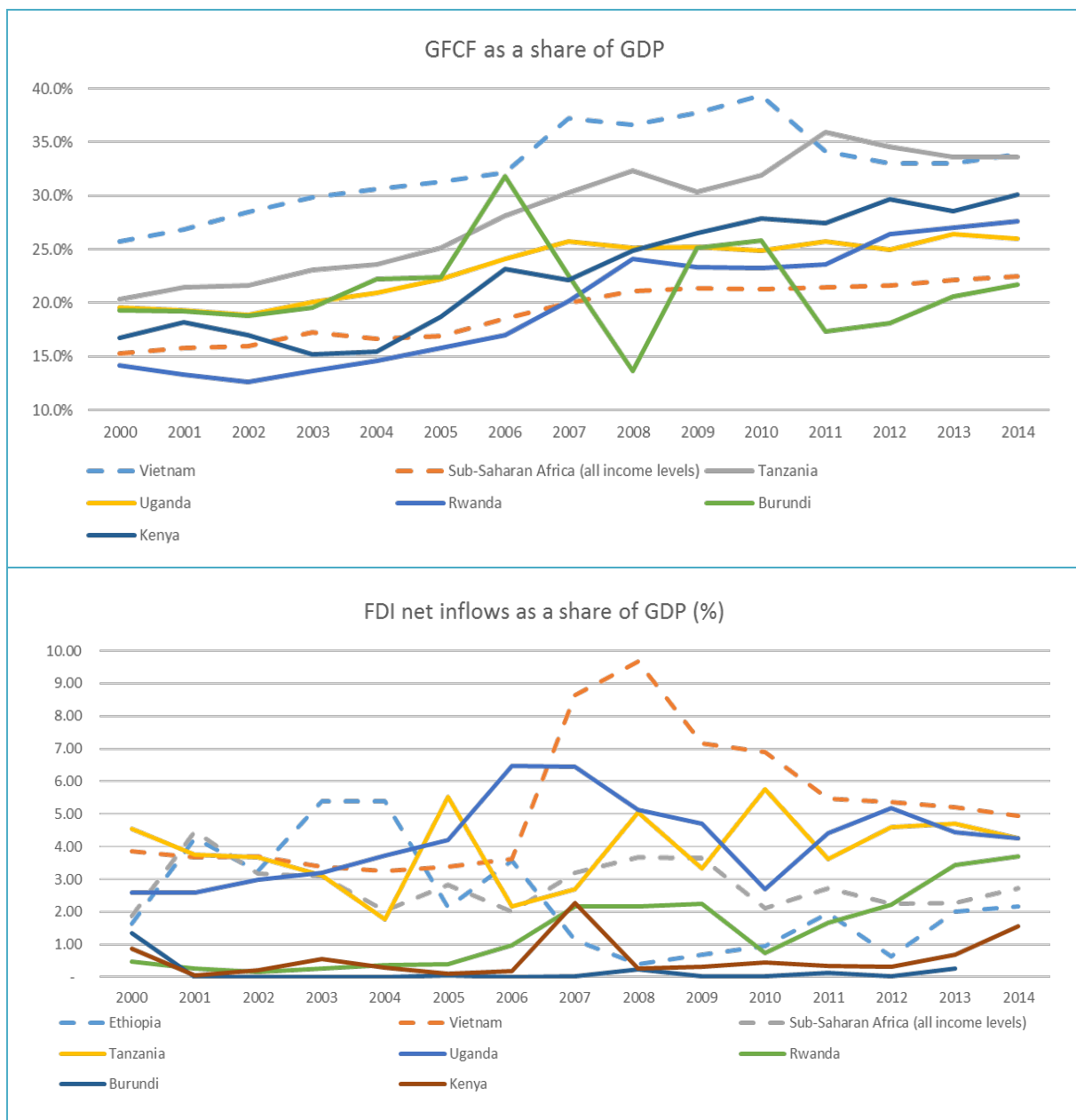
Figure 9: Skills levels of workforce by different types of firms, 2012



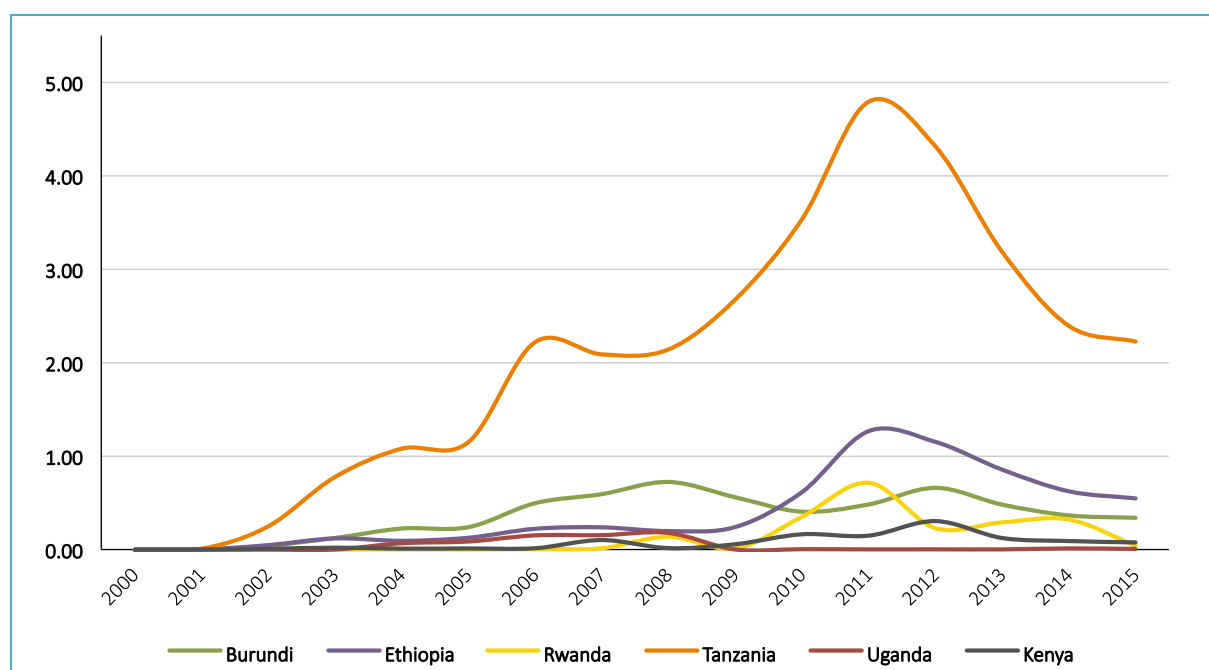
Source: Andreoni in (MITI and UNIDO, 2012)

Tanzania has managed to outperform its regional comparators and other benchmark countries in terms of investments in gross fixed capital formation (GFCF) and foreign direct investments (FDIs) (Figure 10). In 2004 Tanzania was reporting a share of total GFCF in GDP of almost 25 percent (against 15 percent in Kenya). Ten years later, in 2014, Kenya managed to catch up and reduce the difference to less than 5 percent points, although Tanzania is still leading in the East African region with a GFCF of 34 percent as share of GDP. Similarly, Tanzania is leading in terms of FDI attraction with net inflows above 4 percent as share of GDP (Figure 10). However, domestic and foreign investments have been mainly concentrated in the construction and extractive sectors, where they are attracted by high level rents. In particular, mineral rents in Tanzania are by far the highest in the region³. Since 2004, the mineral rents have remained above 1 percent of GDP and reached a peak in 2011 when the mineral rent reached 5 percent (Figure 11).

³ Mineral rents are calculated as the difference between the value of production for a stock of minerals at world prices and their total costs of production.

Figure 10: Domestic and foreign investments in Tanzania as share of GDP, 2000 - 2014


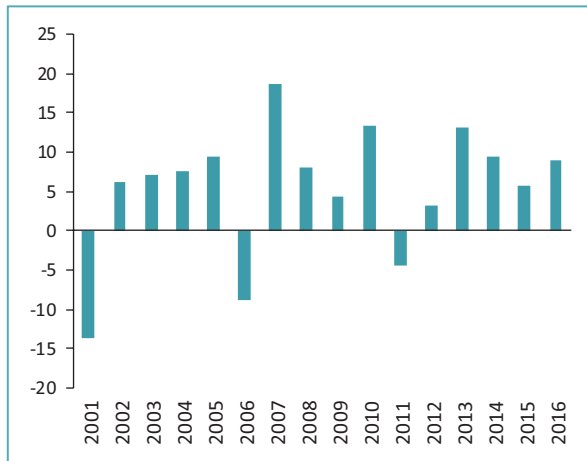
Source: MITI, 2016

Figure 11: Mineral rents, 2000 - 2015

Source: Author's calculation based on World Development Indicators.

On the contrary, the share of manufacturing in total GFCF of Tanzania has been declining from around 20% between 1995 and 2000, to around 7% or 8% between 2003 and 2010 (MITI, 2016). Notably, investments in the power sector have remained extremely low, although some improvements in terms of power generation were reported in 2016 (Figure 12).

Finally, even when domestic and foreign investments reach productive sectors and activities, the chronic underutilisation of production capacity has hindered opportunities for scale-led productivity increases, costs reduction and, thus, increased price competitiveness (Table 2). Production scale-up remains a critical challenge for increasing productivity in Tanzania, especially among smaller firms (Andreoni, 2017). Many of them have shifted in the “wrong” structural change direction, that is, labour has moved from more productive to less productive sectors (McMillan and Rodrik, 2011), leading to de-industrialisation and increasing informality.

Figure 12: Power generation percent change

Sources: Tanzanian authorities and IMF staff projections (IMF, January 2017)

Table 2: Production capacity utilization

Product description (All products and selection)	Average capacity utilization
All products (CPC code)	63%
Products of agriculture, horticulture etc	65.3%
Dairy products	53.1%
Meat, fish, fruit, vegetables, oils and fats	57.3%
Beverages	63%
Textile articles other than apparel	59.6%
Basic chemicals	66.7%
Basic metals	59.4%
Electricity, town gas, steam and hot water	75%

Source: Census of Industrial Production, Nbs, 2013

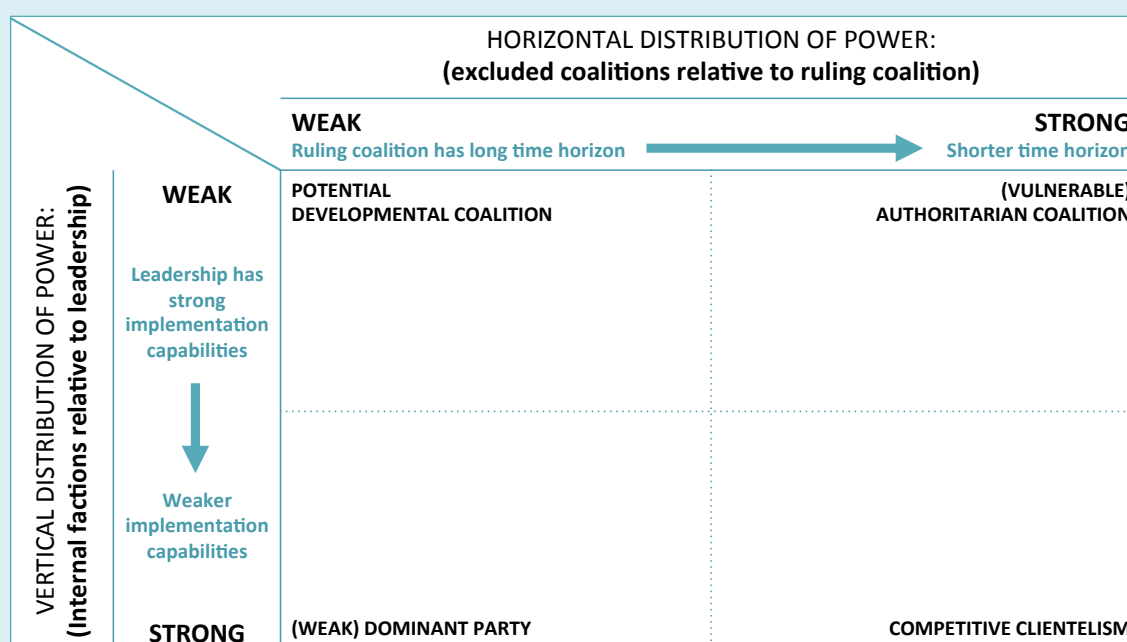
3. Political settlement and political corruption in Tanzania

Since the country's independence in 1961, the political settlement in Tanzania has witnessed a slow process of transformation, characterised by both elements of change and persistence. Changes in the political settlement have been driven by factional conflicts within the ruling coalition, CCM (Chama Cha Mapinduzi), at the highest level of the party, as well as amongst lower level factions constituting the pyramidal organisation of the ruling coalition. These conflicts escalated in three critical phases and were triggered by three intertwined processes. These are: (i) the collapse of the socialist model of development and, thus, the forced privatisation and liberalisation of the economy in the late 1980s and 1990s; (ii) the shift to a multi-party regime in 1992 and the emergence of excluded party factions, in both mainland (especially urban areas) and Zanzibar in the 2000s; finally, (iii) the increasing incidence of corruption which culminated in the grand corruption scandals under the first and second Kikwete governments, from 2005 to 2015.

With the transition to a multiparty democracy in 1995, corruption has become a major driver of change in the Tanzanian political settlement and has resulted in factional conflicts within the ruling coalition and its lower level factions. In particular, corruption has played a key role in the recent shift to the current *vulnerable authoritarian coalition* settlement under Magufuli, as well as his most recent attempts to transition towards a '*potential developmental coalition*' settlement. In the following sections, we develop a political settlement analysis (PSA) of Tanzania, its evolution since independence as well as its potential future trajectories (Box 1 provides an introduction to political settlements analysis). Understanding the deep roots of today's clientelistic networks and the complex dynamics whereby the "party of the revolution" – Chama Cha Mapinduzi (CCM) – has managed to institutionalise and retain its power since 1961, is critical for understanding today's Magufuli Presidency and Tanzania's future potential trajectories.

Box 1: The Political Settlements Analysis (PSA)

The distribution of organizational power in a society (its political settlement) is an important determinant of the policies and institutions that emerge and how effectively they can be implemented. The distribution of power affects implementation because it identifies the organizations that are likely to capture rents, if necessary by distorting formal policies. The distribution of power *across* political organizations and *within* the ruling coalition are both important. The capabilities of economic organizations and of the bureaucracy (including the military) are also important components of the overall configuration of power. However, the configuration of *political* power is particularly important and we use the framework in Khan (2010) to describe this aspect of the political settlement as shown below.



The configuration of power in the top left hand corner of the diagram describes 'potential developmental coalitions' where the ruling coalition faces weak opposition from excluded groups and the leadership has effective power over their own organizations. This combination results in long time horizons as the ruling coalition is not vulnerable and significant implementation capabilities as its lower levels can be disciplined by higher levels. These coalitions may appear to be authoritarian but rarely have to use violence. In principle they could also be elected to power.

As excluded organizations become more powerful, the ruling coalition may have to use more repression or violence to stay in power. We then have the emergence of 'vulnerable authoritarian coalitions' as we move towards the top right. These coalitions have a shorter time horizon and the leadership engages in more unproductive rent capture even if their control over their followers remains strong.

However, these ruling coalitions tend to lose control over lower levels because it is difficult to control lower levels if powerful excluded organizations offer them better deals. Parts of the ruling coalition can begin to leave and build new organizations or join the opposition hoping to get better deals. As multiple parties emerge, each party has weaker control over their organization because disaffected members can leave. We are then in the bottom right hand corner described as ‘competitive clientelism’. This configuration of power typically supports democratic competition in developing countries. Democracy can be more stable and less repressive than a vulnerable authoritarian coalition if organizational power has actually become fragmented, but democratic parties also have short time horizons and weak implementation capacities. If the competing parties can work out ‘live and let live’ arrangements of replacing each other in power, institutional and policy stability may emerge with good development outcomes in some contexts.

Finally, a configuration of power where a large political organization faces limited opposition can result in a ‘weak dominant party’ in the bottom left hand corner. Such a ruling coalition may have limited implementation capability because by including almost everyone the leadership pays the price of not being able to impose discipline on their own organization. These ideal types are simplifications and many examples lie on the boundaries of these configurations: for instance dominant parties with strong organizations can be close to being developmental coalitions, developmental coalitions that face growing resistance can become vulnerable authoritarianisms and so on (Khan 2010).

3.1. The Nyerere developmental state and the deep roots of clientelistic networks in Tanzania (1961-1985)

In 1964 the Acts of Union between the Republic of Tanganyika (today’s mainland Tanzania), under the Presidency of Julius Nyerere, and the People’s Republic of Zanzibar, under the Presidency of Abeid Karume, established the United Republic of Tanzania (URT). The federation left Zanzibar with substantial political autonomy, including the possibility of constituting its own house of representatives and electing the president of Zanzibar.

During its first years after independence, Tanzania’s economy developed along the trajectory set during the colonial period. Against a largely agrarian society, in 1965 the industrial sector was small and dominated by foreign-owned companies who produced around 75% of the total industrial output, mainly focusing on agro-processing (sugar mills) and some low-tech manufacturing (textile, glass bottle and aluminium). The remaining industrial output was produced by Tanzanian-Asian businesses, mainly traders who had invested in some low-tech manufacturing industries.

Given the lack of an indigenous African capitalist group, the father of the nation President Julius Nyerere promoted the following set of policies: (i) nationalisation of large segments of the economy (especially firms owned by Tanzanian-Asian businesses); (ii) creation of new parastatals (Arusha Declaration in 1967); (iii) promotion of industrialisation via import-

substitution, foreign concessional financing and exchange rate policies (Basic Industry Strategy in 1975). In the rural sector, throughout the 1970s, the “villagisation programme” led to the re-organisation of land in small-size farming units, alongside the establishment of larger state-owned farms (Clark, 1978; Coulson, 1979 and 1982; Ponte, 2002; Khan, 2010). In 1979 large-scale mining activities were put under the control of the State Mining Corporation (STAMECO), while artisanal-scale mining was regulated. At the centre of Nyerere’s *Ujamaa* model, these industrial and agricultural strategies were aimed at reaching economic self-sufficiency, and redistributing the economic power towards the elimination of racial imbalances (Nyerere, 1968).

Despite Nyerere’s state-led model of development, during the *Ujamaa* period a significant part of the economy remained in private hands and patron-client networks started to develop. The Arusha Declaration prohibited members of the ruling coalition from being involved in “capitalist activities”. However, what came to be called the “Leadership Code” could not impede indirect forms of involvement in businesses, thus, clientelistic networks formed spanning across CCM and businesses. While some factions of the ruling coalition saw the non-African business people as enemies of *Ujamaa*, within other factions, CCM members established strong relationships with Tanzanian-Asian businessmen and, in some cases, the latter were even allowed to join the ruling party (Balachandran, 1981). For example, after the nationalisation and merger of five private milling companies in 1967, the owner of the largest private milling company in Tanzania, Jayantilal Keshavji (Andrew) Chande became the manager of the newly created National Milling Corporation. During this period, the promotion of a number of joint public-private ventures also consolidated emerging clientelistic networks between the Tanzanian-Asian business community and CCM factions. Finally, a new “intermediate class” group of managers running parastatals companies gradually emerged (Gray, 2013; see Kalecki, 1976 on the concept of “intermediate regimes”).

The organisational power of the ruling coalition, TANU Tanganyika African National Union led by Nyerere, became increasingly dependent on multiple groups. The first and original one was constituted by an intermediate class of teachers, clerks, traders and smallholder farmers, as well as military people who established trust networks during the 1960s and 1970s. In particular, through attendance at the same schools, the foundation of the University of Dar es Salaam in 1961, and the establishment of the National Service in 1965, networks of friendship, loyalty and interests were built. Some of these networks crystallised later in party factions and longstanding alliances within CCM (Taylor, 1963; Hyden and Mmuya, 2008; Therkildsen and Bourgoignie, 2012). Alongside this traditional elite network, as became evident in the privatisation era of the late 1980s and 1990s, there was an emerging clientelistic network linking Tanzanian-Asian business people and factions of the ruling coalition, as well as factions of CCM and lower level factions running the parastatal machine.

Another important set of networks emerged from the complex relationships between Tanzania mainland and Zanzibar. Since the unification, political tensions and conflicts between political factions within the islands, as well as across dominant factions in the mainland and Zanzibar, culminated with the assassination of the first President of Zanzibar Karume in 1972. More critically, these factional conflicts led to the creation and

consolidation of new, powerful networks and the convergence of interests between TANU and the Afro-Shirazi Party of Zanzibar. The two parties united in 1977 to create the Chama Cha Mapinduzi (CCM).

In 1979, at the onset of the macroeconomic crisis which led to the Structural Adjustment Programmes during the Mwinyi presidency, the government owned 380 highly subsidised parastatal companies operating in multiple sectors. Despite Nyerere's industrialisation success and the development of a relatively diversified manufacturing base, parastatal companies reported falling rates of productivity and chronic low levels of production capacity utilisation (PCU). Across a number of manufacturing industries PCU was only 30 percent, while in the textile industries it fell even lower at 10 percent or 4 percent as in the case of the Morogoro Shoe Company (Wangwe, 1979; Temu and Due, 1998; Clark, 1978). For a long time the government continued expanding investments in production capacity despite these extremely poor performances. As a result, by 1990 Tanzania had developed 425 public companies. When the government attempted to implement a parastatal rationalisation programme, it was too late: the weak dominant party was unable to enforce the programme. The overall incapacity of the government to discipline costly subsidies to parastatals quickly led to the collapse of the economy and manufacturing output, combined with a critical shortage of inputs and foreign exchange limitations. In turn, parastatal managers reacted by colluding with CCM state officials and traders and engaged in corruption activities and racketing in the black market (Gray, 2013).

The increasing tensions between CCM conflicting factions and their clientelistic networks became evident in 1983, when Nyerere's closest aide and Prime Minister, Edward Sokoini, launched a cleaning operation – "Operation Economic Saboteur" – which led to the imprisonment of thousands of Tanzanian-Asian traders and shop-keepers involved in these corruption activities. Given the targeted nature of some of these imprisonments, the operation was seen as the last attempt of the CCM faction led by Nyerere to retain control of the emerging factions and their clientelistic networks. In 1984 the mysterious death of Sokoini, identified by many as Nyerere's heir, and the resignation of Nyerere in 1985 closed the *Ujamaa* era, and opened a new era of privatisation and economic liberalisation.

3.2. Privatisation, multi-partitism and corruption: the weakening of the dominant party under Mwinyi (1985-1995)

The Ali Hassan Mwinyi presidency (1985-95) represented a fundamental turning point in the reconfiguration of the Tanzanian political settlement and the consolidation of clientelistic networks involving CCM factions and businesses. Between 1987 and 1996, around 105 parastatals were making profits, while 160 reported losses (Cooksey, 2011). In 1992, under the Parastatal Sector Reform Programme (PPRSP) and Privatisation Masterplan, the larger and relatively more profitable manufacturing firms and the state-owned mining sector were sold to foreign investors. A faction of the ruling coalition favoured the development of a FDI-led model of growth for large-scale manufacturing and mining industry, against the interests of smaller producers and artisanal miners (Therkildsen and Bourgouin, 2012). In 1990 the first Investment Act, followed by a second Tanzanian Investment Act in 1997, introduced a

number of ring-fenced incentives to attract and reassure foreign investors. Beyond FDI in the mining industry, however, FDIs mainly went to revitalise existing parastatal assets, in particular in sectors like beverages, tobacco, chemical and plastics (Gray, 2013).

A considerable number of smaller manufacturing firms were sold back to their pre-nationalisation owners. Some of the most well-connected Tanzanian-Asian players also managed to capture significant segments of the industrial sector and various parastatal assets. As a result, in this phase, a number of these businessmen started a significant process of capitalist accumulation across a number of productive and trading activities. In fact, many of the emerging capitalists were both traders and producers, while a truly indigenous industrial class was still missing. Finally, a very small number of former parastatal managers started private businesses and joined the small group of indigenous Tanzanian entrepreneurs.

However, a number of loss-making parastatals managed to avoid this wave of privatisations and continued to extract huge rents from the government in the form of financial transfers (in 1994 these were almost \$360 million; see Cooksey, 2011). The fact that by the end of the Mwinyi presidency only 141 parastatals were privatised tells a lot about the resistance and factional conflicts that privatisation caused within CCM and their increasing involvement in clientelistic networks. In 1991, with the Zanzibar Resolution, the Leadership Code of the Arusha Declaration was abolished, and CCM members were formally allowed to directly engage in “capitalist activities”. As a result, a number of businessmen joined the CCM party, including prominent Asian-Tanzanian businessmen. In fact, the Zanzibar Resolution ratified the ongoing reconfiguration of the interdependencies between the ruling coalition and the private sector, as well as within CCM. The more traditional CCM faction backing the *Ujamaa* domestic-led model of development was defeated, while the one supporting foreign businesses and Tanzanian-Asian businesses managed to advance.

The weakening and fragmentation of CCM in the early 1990s was also exacerbated by the escalation of three major events, and the related rise of new tensions and power conflicts in the political settlement.

First, in 1992 the transition towards a multi-party democracy opened the possibility of democratic elections, but also caused significant changes in the institutional apparatus and electoral process. The national security and intelligence services were formally distanced from the CCM, and directly linked to the institution of the *Presidency*. CCM, however, created a powerful internal *National Security and Ethics Committee*, which has played a key role in the presidential elections since then. Secondly, the amendment of the Elections Act in 1995 (Section 97[4]) whereby MPs were allowed to make financial contributions to community development (provided that these contributions were done “before” the campaign period), intensified the building up of clientelistic networks centred on CCM politicians. From the CCM candidate’s perspective, engagement with powerful organisations became necessary for raising policy money for electoral campaigns. Powerful organisations, on the other hand, had an opportunity to reinforce their networks and infiltrate the political process, whereby rents could be captured.

Second, the relationship between Tanzania mainland and Zanzibar also became increasingly problematic. In 1993 a CCM faction composed of 55 MPs – the so called G55 – asked for a constitutional amendment entailing the formation of the government of Tanganyika and the possibility for the islands to join the Organisation of Islamic Conference (OIC). This proposal threatened the two-tier Union structure and was rejected by the ruling coalition. The presence of a Zanzibari faction within CCM re-emerged in the following years. In 1995, with the shift to multi-party politics, the newly constituted opposition party – the Civic United Front (CUF) – managed to win almost half of the votes in Zanzibar, and thus effectively challenged the constituted government. Since this first election, the CUF electoral base has been mainly composed by Muslim voters, with a strong Zanzibari identity.

Third, in early 1995, just before the first multi-party election in Tanzania's history, a major corruption scandal shocked the CCM party (Heilman and Ndumbaro, 2002). The Minister of Home Affairs, Augustine Mrema, accused President Mwinyi of not having taken any steps against a major Tanzanian-Asian business men accused of selling food unfit for consumption. Mrema abandoned CCM and joined the political opposition NCCR-Mageuzi, to run as their presidential candidate for the election in October 1995. Mrema brought corruption to the centre of the first multi-party electoral campaign in Tanzania. In fact, corruption accusations against Asian business people had been popularised by the charismatic reverend Christopher Mtikila since 1993. Mtikila openly accused the government of allowing rich Asians to capture resources at the expenses of dispossessed Africans (*walalahoi*). He also denounced the existence of 181 *magabacholi* (wealthy non-Tanganyikans) who, according to him, had taken control of the country. These accusations were clearly directed to those clientelistic networks linking CCM factions to a number of businessmen since the Ujamaa period, and then in the privatisation phase (Heilman, 1998; Heilman and Ndumbaro, 2002; Brennan, 2012).

In March 1995 the vulnerability of the fragmented CCM and, thus, the fear of a shift from a 'weak dominant party settlement' towards a 'competitive clientelistic settlement', forced the last political act of the retired, but still influential, President Nyerere. He famously accused the ruling party CCM of having lost control of corruption, and said that the country "reeked of corruption" (Heilman and Ndumbaro, 2002). Nyerere openly denounced the rampant, state-constraining corruption and political corruption, involving both parastatals and private companies in multiple activities, such as tax evasions on imports and losses related to counterpart funds accounting for \$557 million (Hodd and Theobald, 1996).

During the CCM primaries in 1995, Nyerere vetoed the nomination of Edward Lowassa, given his business interests and networks. Nyerere also managed to impose a relatively unknown candidate, Benjamin Mkapa, with a reputation for integrity ("Mr Clean"). The other shortlisted candidate was Jakaya Kikwete, who was allegedly asked to wait his turn in the 2005 presidential election (TEMCO, 1997). Kikwete came from military service, and worked as Minister of Foreign Affairs under Mkapa until 2005, when he was elected president.

3.3. The Mkapa reforms and the response to corruption of a weak dominant party (1995-2005)

Mkapa's presidency repositioned the CCM ruling coalition within the Tanzanian political settlement. His presidency managed to consolidate the holding power of the weak dominant party and attempted, with some success, to address corruption while limiting the increasing power of the lower factions of the ruling coalition. During this presidency, there were two main areas of intervention: anti-corruption and pro-market reforms, especially privatisation.

Following on from his electoral anti-corruption campaign, on January 1996 Mkapa established the Presidential Commission on Corruption chaired by the former prime minister (under the first Mwinyi government), Joseph Warioba. The Warioba Report was particularly influential: it led to the retirement of 20 upper-level state officials in the "public interest" and allowed for an open debate on corruption in the media and civil society (see also section 4). In response to the poor performance of the Tanzania Revenue Authority (TRA), Mkapa introduced a number of tax reforms and intensified tax collection. A number of corrupted staff members of TRA were dismissed while a number of reforms in public financial management (e.g. budgeting system) and public procurement (Public Procurement Act, 2002) were introduced to fight bureaucratic corruption. These steps managed to achieve some success (Gray, 2015).

While these reforms contributed to institutionalising greater transparency and accountability mechanisms, the legalisation of the widespread *takrima* (meaning "hospitality") practice in April 2000 (six months before the presidential election) favoured the increasing reliance on political money: that is, the need to spend significant resources to buy large consensus during campaign periods. The latter became known as the "harvesting season" for "exchanging votes for gifts of money, meals, and party apparel referred to colloquially as food, sofa, sugar, or tea" (Philips, 2010: 123). The legalisation of *takrima* was motivated by the fact that it was different from corruption and that, in fact, it was widespread and almost necessary within the new multi-party democracy regime. Given the strong clientelistic networks linking CCM factions to various powerful organisations in the private sector, this reform favoured CCM against the oppositions, while inducing even more rents capture conflicts between different CCM factions, especially during the CCM presidential primaries and the national electoral campaign.

In terms of economic policies, Mkapa attempted to complete the long transition to a market economy started with Mwinyi, while responding to the mounting pressure of various internal factions. In 1996 Mkapa launched a long-term Sustainable Industries Development Policy 1996-2020 and a new Tanzanian Investment Act in 1997, to encourage both domestic and foreign investments. Privatisation received a substantial acceleration: between 1995 and 2004, 219 parastatal were privatised. Mkapa also identified a number of factors constraining private and foreign investments, including problems related to import clearance, trade licensing, expatriate work permits, land acquisition, planning approval and the complex and ambiguous system of taxes.

By 1996, the first positive signs of manufacturing recovery were registered. However, as a result of the ongoing redistribution of organisational power within CCM and, in particular, as a response to Mkapa's house-cleaning initiatives, privatisation of key assets such as TANESCO and austerity policies, a number of CCM factions started challenging the government. On various occasions, the parliament witnessed open factional conflicts and acts of revenge. Emerging factions connected to different clientelistic networks – sometimes religiously or geographically defined – stood against the government and hinted to the fact that the new CCM political faces were as corrupt as the old ones. One of these emerging lower level factions was identified as the "Southern bloc", others included a bloc centred around the "Lake Zone" and, finally, the "G46 group" composed of both Southern Highlands and Lake Zone MPs calling for economic policies in the interest of the "common man" (Kelsall, 2003).

The issue of the economic empowerment of the "wazawa" – locally born – was also raised again at the end of the first Mkapa government, by the Minister of Industry and Trade, Iddi Simba. In his proposal, 30 industrial and commercial sectors should have been given exclusively to wazawa, while for other sectors a peer joint venture model favouring the involvement of Africans in industrial businesses should have been enforced. This position was seen by the emerging dominant faction within CCM, and a number of foreign investors, as a return to the past, and, was strongly rejected. Within CCM the rising tensions and contradictions concerning businesses control are well elucidated by the CCM electoral manifesto of 2000. Alongside endorsing privatisation and its positive impact on the Tanzanian economy, the manifesto also argued for economic empowerment through cooperatives and "*favouritism* towards nationals in employment and commerce" (Cooksey, 2011; italics added). With these "favouritisms" the CCM dominant faction at that time attempted to rebuild its organisational power, by reaching out to intermediate classes of business people, many of them involved in trading activities.

Despite its internal factional conflicts, during the Mpaka presidency, the CCM ruling coalition was able to retain centralised power and guarantee a form of stability under a *weak dominant party settlement*. The persistence of this regime was due to multiple factors, involving both the public and private sectors. The institutionalisation of political power built around the diffused CCM party apparatus, as well as the relatively balanced distribution of power among CCM factions, including the army and the bureaucracy, were key factors of persistence (Khan and Gray, 2006; Lindemann and Putzel, 2008). In particular, since 1992, the national security and intelligence services have backed up the "institution of the presidency", while the newly created National Security and Ethics Committee within CCM has acquired a strong role, especially in the selection of CCM presidential candidates. The broad distribution of rents among different, although sometimes overlapping and fluid clientelistic networks involving both domestic and foreign businesses, also guaranteed the persistence of a weak dominant party settlement under the CCM ruling coalition. Many African and Tanzanian-Asian businesses could find their "good fathers" in the CCM and have their interests and rents capture activities protected. In return, they would support the CCM party and election machine.

The inclusive nature of the elite bargaining in Tanzania suggested in Khan and Gray (2006) and Lindermann and Putzel (2008) and, thus, the relative balance amongst CCM factions, gave the Mkapa presidency the semblance of a weak dominant party settlement. However, after 2005 the Tanzanian political settlement shifted increasingly towards a 'competitive clientelistic settlement'. Two main factors were responsible for that. First, the consolidation of excluded factions outside the ruling coalition, in particular CHADEMA in mainland, and the Civic United Front (CUF) in Zanzibar. In the 2000 elections, the tensions between mainland and Zanzibar escalated and transformed the election in a violent conflict with around 40 deaths (Green, 2011). Second, the increasing recurrence to political money to finance the CCM presidential candidate selection process (presidential primaries) and the presidential national campaign. These two factors led Tanzania towards a *competitive clientelistic political settlement*, where competing factions both within and outside the ruling coalition had to raise increasing amounts of political money to finance their run for the presidential election.

3.4. Grand corruption and competitive clientelism under Kikwete (2005-2015)

In the build up to the 2005 presidential candidate primaries and national campaign, CCM candidates and factions increasingly engaged in politically motivated rent-seeking. Circumstantial evidence suggests that the External Payments Accounts (EPA) scandals at the Bank of Tanzania were in fact related to the financing of the ruling coalition 2005 campaign (see section 4). As suggested in Cooksey (2011), domestic and foreign business interests backed all three final presidential candidates, namely Jakaya Kikwete, Salim Ahmed Salim and Mark Mwandosya. During the campaign, CCM Chief Executive Philip Magula reported that the favoured candidate, Kikwete, and the former Prime Minister John Malecela made excessive use of money in their campaigns, and that Kikwete could have been disqualified as CCM presidential candidate for that reason. Edward Lowassa was part of a small group of CCM people and businessmen, who financially supported Kikwete during his electoral campaigns (Cooksey, 2011). In 2005 Kikwete was elected President with the highest margin of victory in Tanzanian presidential elections, 68 percent.

During the first Kikwete government, the powerful and well connected Prime Minister Edward Lowassa consolidated his influence within CCM by securing a number of key appointments, and gaining the support of a number of ruling party MPs as well as Regional and District Commissioners. The emergence of a powerful pro-Lowassa faction of the ruling coalition, with a strong pyramidal structure, well organised at both the centre and district levels, led to an open conflict with the excluded factions within CCM.

The local party branches at the regional and district levels are important parts of the CCM machinery, which an aspiring presidential nominee must control to win the CCM primaries. A ramified and complex network of neighbourhood representatives influences political views at the grass-roots level, and exercises control over potential dissent within CCM, especially during the nomination of delegates for the National Congress. At the lowest level, CCM is represented by so called 'cell leaders,' representing ten houses. This gives CCM an unmatched advantage in terms of political organisation in each village, ward, district and

regional levels. Croke (2017), for example, found evidence of citizens self-censoring in the presence of “party agents” and the role of the latter in distributing rents at the lower levels of the pyramidal organisational structure of the ruling coalition.

At the centre level, Lowassa’s attempts to prevent parliamentary discussions around ‘sensitive’ issues involving its clientelistic networks, compacted the conflicting faction within CCM around Kikwete (Cooksey, 2011). This unprecedented fracture within CCM, and the related increasing need to raise resources to run presidential campaigns, is the background against which the corruption scandals of the late 2000s developed (see section 4). In April 2006, only four months after the election, Tanzania’s High Court declared that the amendment of the Elections Act passed in 2000, which legalised *takrima*, was unconstitutional as it induced legalised corruption and penalised lower-income candidates. Despite that, the use of *takrima* continued in the 2010 elections. In fact, according to a REPOA survey conducted in 2012, more than half of the voters reported increasing vote-buying activities by politicians (Tsubura, 2015). This led the pro-Kikwete faction to change CCM nomination rules just before the 2010 elections. By giving the right to vote to all party members, CCM made it more expensive to buy votes. As a response, Yusuf Makamba removed the identity card control requirement in the presidential primaries, opening the process to the proliferation of a substantial number of counterfeit membership cards (Therkildsen and Bourgouin, 2012).

In February 2008, with the mounting Richmond energy deal corruption scandal (see section 4), Lowassa was forced to resign. The new Prime Minister Mizengo Pinda formed a relatively smaller government with only 26 ministers and 21 deputy ministers. Moreover, in an attempt to break some of the clientelistic networks underpinning the pro-Lowassa faction, in 2009 Kikwete tried to introduce a new separation between business and politics. In order to address the conflict of interests of a number of CCM politicians, Kikwete proposed that politicians with business interests should renounce the running of their businesses and these should be managed by a trust for the time they were in political office (REDET, 2010). This proposal raised further fragmentation and conflicts between the so called CCM-Safi (clean) and the CCM-Mafisadi (corrupted) factions (Gray, 2015).

This was not the first time a corruption scandal had led to a significant fragmentation within CCM: the same happened in 1994 before the election of Mkapa (see section 3.2). However, while in the 1990s the excluded factions in the first multi-party elections were not a threat, since 2010 the excluded factions clustered around CHADEMA and their anti-corruption political cartel had grown significantly. In 2010 CCM won 258 of the 343 seats in the parliament and 63 percent of votes in the presidential election which led to the reconfirmation of Kikwete (in 2005 Kikwete had obtained 80 percent of the popular vote). In 2010, the worst electoral result since 2000 (Mkapa reached 70 percent in 2000) showed the weakness of the CCM ruling coalition, and the complete transition of Tanzania to a *clientelistic competitive settlement*. In particular, in the 2010 election in Mainland Tanzania, CHADEMA performed better than CCM in the urban constituencies and in the regions around Lake Victoria and Kilimanjaro. Similarly, the excluded factions in Zanzibar organised around CUF, exploited the increasing weakness of the ruling coalition to put more pressure on the Union government.

The personal conflict between Kikwete and the still powerful Lowassa increased the fragmentation at the inter-ministerial level, and weakened the overall capacity of the second Kikwete government. In particular, it hampered its capacity to address the corruption scandals and the longstanding socio-economics problems in both rural and urban areas. In April 2011 factional conflicts led to an unprecedented outcome. The Central Committee (including the Secretary General Yusuf Makamba) resigned and asked the party chairman Kikwete to nominate a new team to achieve “a real transformation of the party, to rectify its low morale and discipline”. Kikwete, often depicted by some as a weak president, responded to this call by removing from the Central Committee (CC) powerful MPs controlling major businesses. Traditionally, the CC has included a significant number of people with military/intelligence background. In 2010, there is evidence that at least 20% of the CC members had a military background, including President and Party Chairman Kikwete and the Prime Minister Mizengo Pinda (Lindeman and Putzel, 2008; Therkildsen and Bourgooin, 2012). In 2012 the veteran CCM politician Philip Mangula became vice Chairman of CCM, and the chairman of the CCM security and ethics committee in charge of scrutinising presidential candidates in 2015.

Despite these measures, the CCM was shaken by another multimillion-dollar corruption scandal in 2014 – the Tegeta Escrow Account scandal – which led to the forced resignation of the Attorney General Frederik Werema (see section 4). In the same year, the main opposition parties united under the umbrella of UKAWA, the Coalition of the People’s Constitution. This was the response of the excluded factions to the CCM’s attempts to hijack the constitutional reform process, which could have eroded the dominant party’s power. The grand corruption scandals, combined with the fragmentation within the CCM, and the emerging pressure from external factions represented a key threat to the survival of the ruling coalition. As had already happened in the past, the elite of the CCM in the Central Committee (CC) responded to this threat with the nomination of a relatively unexpected presidential candidate, Joseph Pombe Magufuli. The new President had been Minister of Works under both Mkapa (2000-2005) and Kikwete (2005-15), and arrived at the election with a reputation as a hard-worker, effective, righteous and unflashy politician.

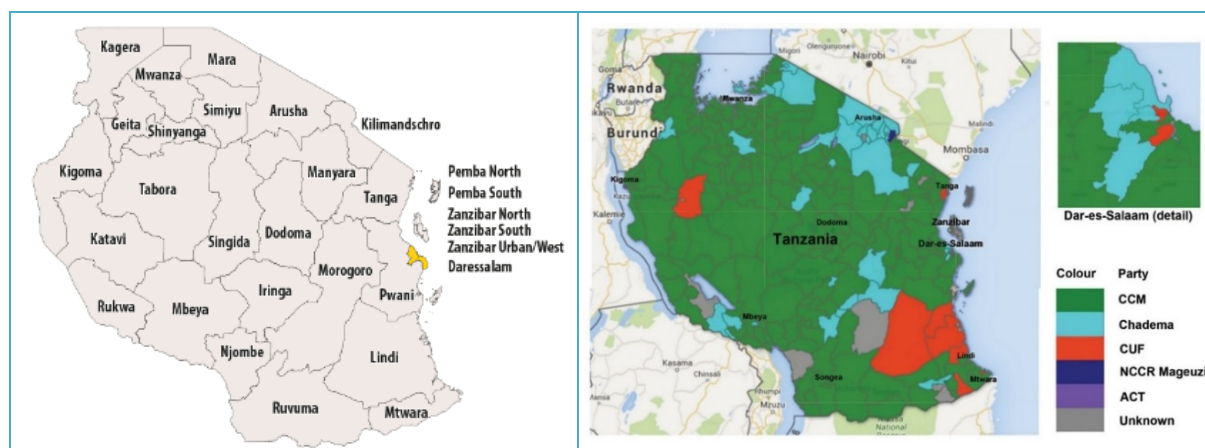
Lowassa had prepared his campaign for the presidential election since 2005. In 2014 he faced a one-year ban from CCM after he was accused of having started his presidential campaign ahead of the authorised time. Despite various other attempts to block him, in May 2015 Lowassa launched his presidential primaries campaign from Arusha. However, it is believed that the deteriorating relationship between Kikwete and Lowassa opened the space for a new consensus between the more traditional CCM faction around the still influential former president Mkapa.. It is plausible that the two former presidents Mkapa and Kikwete converged around the name of Magufuli as a way to avoid the split of the party and the loss of the elections with Lowassa as presidential candidate. For the second time, the CC rejected the powerful Lowassa from the list of CCM national candidates (as discussed above, Nyerere strongly opposed Lowassa’s nomination in 1995, when Mkapa and Kikwete were shortlisted).

Until the 2015 election the ruling coalition had been strong enough to keep the conflicting factions together, but too weak to discipline them (and their clientelistic networks). This was

the main paradox of the Tanzanian political settlement (Khan and Gray, 2006). However, in the new *competitive clientelistic settlement*, for the first time the internal factional conflicts led to a separation and the abandonment of the party by one of its more powerful members. Lowassa left CCM in July 2015 and ran as presidential candidate for the opposition coalition UKAWA, including CHADEMA. A number of CCM politicians followed him (although some of these returned to CCM after the elections), including the party's ideological guru Kingunge Ngombale-Mwiru, and the former Prime Minister (1995-2005) Frederick Sumaye. On the opposition camp, Lowassa's move led to the resignation of the secretary general of CHADEMA Peter Wilbrod Slaa. He had been the presidential candidate for the opposition in 2010 and one of the most critical voices against Lowassa and his alleged role in the grand corruption scandals.

In the presidential race, Magufuli won 58.5 percent of the vote, the lowest consensus for a CCM presidential candidate since multi-party elections in 1995. Magufuli centred his presidential electoral campaign on five main related themes: corruption control, tax compliance, government efficiency, industrialisation and free education policy. Lowassa obtained the remaining 40 percent of the votes with CHADEMA, with a programme focused on education, poverty, economic growth and anti-corruption (Paget, 2017). The parliamentary contest was also a close call, with CCM gaining only 44 percent. However, he division in the opposition camp, allowed CCM to obtain the large part of the seats in the parliamentary election (55 percent, 189 seats) (Tanzanian Affairs, 2016, see Figure 10).

Figure 13: Tanzania regional map and electoral results by regions and districts, National Election 2015



Source: Tanzania Affairs, Jan 1, Issue 113.

CHADEMA gained 11 seats from 2010 (31.8 percent, 34 seats) and the CUF gained 8 seats from 2010 (8.6 percent, 32 seats). These numbers do not include the 110 special seats (women) and MPs nominated by the President for a total of 370 MPs. At the local level, more constituencies were contested. “The opposition exceeded expectations in Dar es Salaam, where its MPs now outnumber those from CCM. CHADEMA retained its seats in Ubungo and Kawe, won the new constituency of Kibamba, and took Ukonga from CCM. CUF candidates ousted CCM incumbents in Kinondoni and Temeke. CCM won only four of the ten seats in the city: Ilala, Kigamboni, Segerea and Mbagala” (Tanzanian Affairs, 2016).

3.5. The “bulldozer” or the “builder”? The vulnerability of the authoritarian coalition and the potential developmental state under Magufuli

Magufuli’s electoral manifesto and personal campaign were centred on three main promises. First, the launch of a crusade against corruption, tax evasion, smuggling and waste in public offices, including the establishment of a special court to fast-track the prosecution of those accused of corruption. During the campaign, Magufuli managed to capture the anti-corruption message of the oppositions, and openly denounced the widespread corruption involving all political factions, within and outside CCM, and equally the public and private sectors. The second electoral promise was to transform Tanzania into an industrialised nation and, in particular, to find a solution to a number of related issues including the shortage of energy; the lack of employment and investments in productive sectors and infrastructures; the underutilisation of production capacity in former-parastatals; land disputes; and the limited diversification of the economy (see Section 2). Magufuli made clear that the government would play a direct role in driving the envisioned transformation of the economy. Third, and finally, Magufuli promised to inject significant resources from the government budget to finance free education at both primary and secondary levels, and to enforce the allocation of these resources by preventing money leakages from the central to the district levels.

The first fifteen months under President Magufuli – immediately renamed the “Bulldozer” – were characterised by three consistent processes: (i) a relentless anti-corruption campaign; (ii) the increasing centralisation of power under the institution of the presidency; (iii) the systematic repression of excluded factions, including the oppositions and the media. These processes clearly suggest a shift towards a *vulnerable authoritarian coalition settlement* in Tanzania, as some analysts have suggested. However, against this background of apparent consistency and continuity, after the first nine months of the Magufuli presidency, some evidence of discontinuity has started to emerge. While the political settlement is still in flux, this new evidence suggests that Magufuli is slowly moving towards a second phase of his presidency in which he will be increasingly focused on his role as the “Builder” of a *potential developmental state settlement*.

This developmental ambition is currently frustrated by the many vulnerabilities of his authoritarian coalition, in particular with respect to: (i) the capacity of CCM to transform itself, while retaining the support of lower level factions; (ii) the difficulties in engaging

powerful organisations in the private sector to maintain and improve productivity and growth performances; (iii) the need to deliver tangible results and dissipate the mounting dissent among the opposition and broader society (especially in large urban areas like Dar es Salaam), mainly due to the macroeconomic contraction.

Moreover, despite Magufuli's anti-corruption crusade, the distribution of organisational power, within and outside CCM, is still largely untouched. The main reason is that, as widely documented in the previous sections, clientelistic networks linking powerful organisations in Tanzania are deeply-rooted in its history and have managed to survive multiple changes in the political settlement. Thanks to these networks, and their capacity to control 'nodal' institutions, powerful organisations have already shown signs of passive resistance, in some cases even of active sabotage, as acknowledged in a recent article by the head of the CEO Roundtable, Ali Mufuruki (2017)⁴. Magufuli has thus faced resistance on multiple levels in implementing and enforcing a systematic developmental state agenda. The building of a powerful network within CCM, and across segments of the private sector, supporting the development of a potential developmental state coalition, has proven to be much more challenging than "bulldozing" the entrenched power structure in Tanzania.

The "Bulldozer" phase

During his first nine months in government, Magufuli managed to capture the imagination of the electorate with a number of popular initiatives and unexpected anti-corruption operations (Tanzanian Affairs, January 2017). The restrictions on public expenditures such as foreign travel for public officials, expensive public celebrations, and the use of hotels for government meetings, as well as the immediate transfer of these savings to finance hospitals and schools gained Magufuli significant popularity. At the same time, numerous anti-corruption operations were enforced, including the immediate calling of a 7-day ultimatum to businessmen suspected of tax evasion; the rooting-out of 16,000 "ghost workers"; finally, the firing of several civil servants, including the heads of the Tanzania Investment Centre (TIC), Tanzania Communications Regulatory Authority (TCRA), the Tanzania Revenue Authority (TRA), the Tanzania Ports Authority (TPA), the Reli Assets Holding Company Limited (RAHCO), Dar es Salaam City Council, and the Director of the Prevention and Combating of Corruption Bureau (PCCB). Magufuli's direct involvement in many of these operations (including raids on government offices), and the persistence in prosecuting (or simply removing or transferring) allegedly corrupted people at all government levels, was unprecedented. Many of the targeted government officials were appointed by Kikwete, for example the Chief Secretary Ombeni Sefue (this is probably the most important role in the civil service).

In his attempt to dismantle the existing clientelistic networks, Magufuli built up a lean government composed of personally trusted people. Magufuli had worked with some of them in the Ministry of Work (as in the case of the current Chief Secretary, Ambassador

⁴ In his article, Mufuruki warned about the fact that "criminal networks, racketeers and private sector beneficiaries of corruption will no doubt work in alliance with their friends in government to ensure that anti-corruption institutions do not gain strength".

Kijazi) or for his electoral campaign (as in the case of the current Permanent Secretary Ministry of Finance, James Dotto); others were people with reputation for a solid background and competence (for example, the Minister of Finance, Philip Mpango); finally, a certain number of new appointees are from his parliamentary constituency (Chato), in some cases even from Magufuli's extended family. Magufuli also adopted a typical tactic from Nyerere's playbook, where to avert tensions or the 'loss of stability of the party' he would transfer people to other places or roles to diminish their influence. We have seen Magufuli adopting this strategy already, sometimes as a way to diffuse tensions around a corruption scandal.

Magufuli also made extensive use of his power of patronage, by appointing civil servants from Assistant Director upwards, general managers of parastatals, judges, ambassadors, university deans and other prestigious posts. In particular, Regional Commissioners and District Commissioners are typically administrative civil servants, but they are also CCM operatives who chair security committee meetings in their respective areas (Citizen, 27 June 2016). Interestingly, a number of the new appointees are members of an established network of academics around the University of Dar es Salaam, where Magufuli studied. On the contrary, a number of prominent CCM figures who allegedly supported his nomination as presidential candidate remain outside the government.

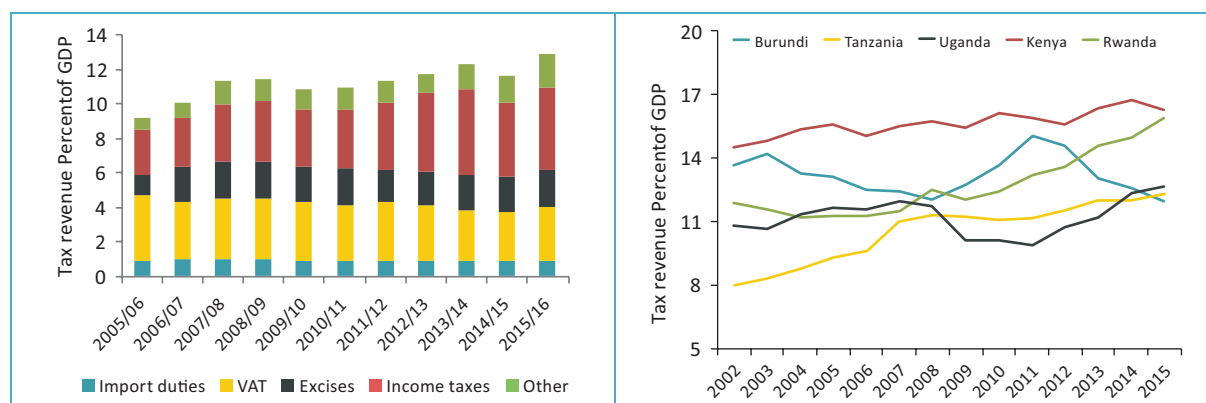
The relationship between Magufuli and the private sector remained distant, if not confrontational, throughout his first nine months. Historically in Tanzania, the relationship between the government and the private sector has been characterised by mistrust, despite widespread clientelistic networks, and even the financial support of various Tanzanian-Asian businesses to the ruling coalition. This mistrust did not impede the formation of corrupted deals. In fact, since the Nyerere era, businessmen have 'picked winners' in the CCM party to capture rents; in other cases, they have 'picked losers' to fight the ruling coalition and their powerful supporters and thus build up a new ruling coalition. Both the CCM presidential primaries and the national election campaigns have always been the main context for deal making/alliance building. However, exactly because the clientelistic networks have been fluid, that is, they have overlapped and shifted over time, mistrust has dominated the relationship between the public and the private sector.

In his first public meeting with the private sector in early December 2015, Magufuli made it clear that he would not let businessmen "play with his government"⁵, and that he was open to establishing a new relationship with them (JamiiForums, 2015). In front of two main delegations from the Tanzania Private Sector Foundation (led by Reginald Mengi), and the CEO Roundtable (led by Ali Mufuruki), Magufuli stressed that he wanted to work with businessmen to industrialise Tanzania, but that he would not tolerate corruption and tax evasion. The announcement was immediately translated into a seven day ultimatum with

⁵ The exact words were 'there is a government, that government is John Pombe Magufuli's government, and it will not happen, in my term that the business community will run my government'. Another thing he mentioned was what he termed as 'people using the power of their money to oppress other people'. It is thought that he was singling Yusuf Manji (a famous Asian businessman) who was in a fight with the Kinondoni Council over the Coco Beach plot where he wanted to build a hotel and other properties. President Magufuli stated that Coco beach was public property and he would not let one person take it at the expense of millions of Dar es Salaam residents.

respect to the “missing containers saga”, involving prominent businessmen (Citizen, 8 December 2015). Magufuli’s threat was perceived as credible by the business community, and many companies lined up to pay their duties for a total of Sh8.6 billion, including Bakhressa who paid Sh2 billion in few days. As shown in Figure 11, since 2002 Tanzania has been the worst performer in the East African Region in terms of tax revenue collection, although signs of improvements have been registered in 2015/16.

Figure 14: Tax revenue collection in Tanzania, composition and comparators



Source: Source: Tanzanian authorities and IMF staff calculations, 2017

In early 2016, the scarcity of sugar in the country led to another strong anti-corruption operation. Official statistics state that Tanzania has about 100,000 – 120,000 tons of sugar deficit annually. The sugar factories in the country are unable to meet the local demand, particularly industrial sugar used for manufacturing canned drinks. The sugar industry is regulated by the Sugar Board, which issues permits for the importation of sugar. This arrangement has historically led to various forms of collusion between importers and the Sugar Board (Cooksey, 2011). To tackle this issue, Magufuli ordered that all the permits had to be approved by the Prime Minister’s Office. Sugar prices soared by 100 percent in a few weeks. As a response, Magufuli ordered regional commissioners and police officers to inspect warehouses for sugar ‘hoarders’. In Dar es Salaam and Dodoma, a few businessmen were arrested (or had to explain why they had so much sugar in their warehouses). Many of these businessmen were Tanzanian Asian whose sugar, it was reported, was impounded in the port for a long time (Citizen, February 2016).

Another set of episodes, signalled the increasingly conflicted relationship between Magufuli and the private sector, including foreign businesses. During Kikwete’s presidency, a law was passed to make it compulsory for companies in the Telecom sector to list 25 percent of their shares in the Dar es Salaam Stock Exchange (DSE). Under Kikwete, the companies resisted this move, saying that the local market did not have the capacity to absorb such big companies. The major mobile companies are foreign owned and include Vodacom (Vodafone - UK), Tigo (MIC – Luxembourg), Airtel (Indian), Zantel (MIC – Luxembourg) and Viettel (Vietnam). Magufuli instructed the companies to comply with the existing law by June 28. It is said that these companies told the State House that it was not possible to do so in such a short period of time. In response, Magufuli gave telecom companies a 6 months ultimatum: either ‘list or leave’. By the end of 2016 Vodacom and MIC submitted their prospectus with the DSE for listing (Financial Times, 2016a).

During this first phase of the Magufuli Presidency, the reaction from the business community was largely negative, although a number of businessmen, especially Ali Mufuruki and Reginald Mengi, had on multiple occasions endorsed Magufuli's anti-corruption efforts, while warning about potential short-term macroeconomic risks. In June, for example, in a special report on 'Investing in Tanzania', the tycoon Reginald Mengi (with investments in manufacturing, media, soft drinks, mining and technology) described the situation in Tanzania as a place "full of holes". He also added that he had lost out on at least two big deals due to corruption (Financial Times, 2016b). According to him, in 2015 Tanzania "had reached tipping point" and that Magufuli's bulldozer approach was a necessary response. Mengi also stressed that Magufuli needed to articulate and align his economic policies in a more systematic way. A few months later, along similar lines, while praising the president for his anti-corruption crusade, Mufuruki warned the government about the immediate shortcomings and instability of the approach undertaken by Magufuli, in particular the implosion of the financial sector due to the losses of uncompetitive firms, and the potential liquidity crisis⁶.

The reduction of liquidity in the system suggests that Magufuli's anti-corruption interventions (e.g. tax collection enforcement, including duties for goods on transit) had been effective. This might have been the case, at least in the short term (as testified by increasing levels of tax collections). However, a significant part of this liquidity contraction was due to the fact that business organisations became unable to function given the removal of key nodal figures in the clientelistic networks, while the public sector was paralysed by the authoritarian regime of fear imposed by Magufuli.

Magufuli personal crusade against-corruption, and his centralisation of power around a trusted network of people beyond CCM, has proceeded hand in hand with an increasing pressure on excluded factions, that is, the party oppositions and the media. Since January 2016, the Cybercrimes Act 2015 passed by Kikwete in February 2015, has been used to place controls on social media, while a number of radios, reporters and newspapers were threatened, closed or even arrested⁷. The opposition has largely boycotted parliamentary sessions, they have not been given any major chairmanships of key parliamentary committees (as was the practice since 1995), and vocal committee members like Zitto Kabwe (former Chair of the Public Accounts Committee) were given minor roles. In June 2016 the President also announced a ban on political rallies (later extended to cover indoor party meetings) on the grounds that the elections were over and that these meetings would have distracted government action.

⁶ Mufuruki, alongside Reginald Mengi, Iddi Simba and Juma Mwapachu (all of them former chairmen of the Confederation of Tanzanian Industry, Cti) are amongst the very few African businessmen from Tanzania (Therkildsen and Bourgoignie, 2012).

⁷ In April 2015, the Statistics Act dictated which research organisations may generate and publish national statistics.

This increasing pressure on parliamentary oppositions and the media started during the second Kikwete government, and became a reflection of the *vulnerable authoritarian coalition* led by CCM under Magufuli's presidency. By repressing the use of rallies to mobilise discontent among various segments of the society, the government has made it very difficult for CHADEMA to address one of its main weaknesses, that is, the lack of a local well-grounded party structure. Rallies are particularly popular in Tanzania and, thus, very important in shaping public opinion and preparing for national elections. While the ban on rallies will likely be lifted during the two-month campaign for the 2020 elections, Magufuli's control of the media and policy space has forced CHADEMA to develop a new strategy for mobilising its electorate. CHADEMA has increasingly centred its policy action on various protests in defence of democracy in Tanzania and against an authoritarian turn under Magufuli, including invitations to civil disobedience and peaceful resistance (Paget, 2017).

The extent to which these initiatives have been able to shift public opinion and organise the oppositions is disputable. Interestingly, Operation UKUTA aimed at building an "Alliance Against Dictatorship in Tanzania" failed to materialise in September 2016, and CHADEMA renounced the launch of its nation-wide campaign, claiming that it could have resulted in violence. Critical voices suggested that, in fact, CHADEMA feared the failure of the operation UKUTA, in particular its capacity to mobilise widespread support among the population. An opinion poll survey conducted in June 2016, and published by Twaweza in September 2016, provides a composite snapshot of the evolving support for Magufuli in Tanzania (Twaweza, Brief 35). Although less than one in twenty citizens reported being well-informed about national politics, the president had a plebiscitary approval. The anti-corruption measures, in particular the dismissal of public officials and identification of 'ghost workers', alongside the increase in the government budget allocation for free education, were the main reasons behind Magufuli's popularity. However, some people criticised his import ban on sugar, and the fact that due process was not followed in dismissing allegedly corrupted officials.

To recap, three main processes characterised the first "bulldozer" phase of Magufuli's presidency:

- Centralisation of power, and distancing from CCM elite and lower level factions
- Confrontational and authoritarian approach towards the private sector
- Increasing pressure on the parliamentary oppositions and the media.

These processes delineate a dramatic shift in the political settlement in Tanzania towards a *vulnerable authoritarian coalition*. While a number of these features persist in what we call here the second "building phase" in Magufuli's presidency, there are also a number of discontinuities that suggests a potential gradual change in the political settlement towards a more developmental configuration. While it is too early to confirm this shift, the next section analyses the evidence available so far and proposes alternative ways to look ahead at Magufuli's presidency.

The “Builder” phase

There is some evidence suggesting that, since late summer 2016, Magufuli has started addressing some of the vulnerabilities of his authoritarian coalition, in particular with respect to CCM and the private sector, while pressure on the oppositions and media has even increased. So far, the second phase of Magufuli’s presidency has been characterised by:

- Centralisation and institutionalisation of power within CCM and some initial forms of network (*mtandao*) politics and coalition building;
- Disciplining rents, with a direct involvement in deal-making and infrastructures;
- Repression of the parliamentary oppositions and the media.

In the following part of this sub-section we concentrate on the first two changes, as the last one simply suggests an escalation of the same authoritarian trends observed in the first phase of Magufuli’s presidency and the previous government. In particular, by making discretionary use of the 2015 Cybercrimes Act a number of popular voices (including the popular social media Jamiiforums) were silenced⁸. Moreover, in November 2016 the Media Services Act led to the establishment of two state-sponsored authorities in charge of granting and revoking licenses for news houses, and responsible for the accreditation of journalists. These new controlling institutions, alongside the President’s repeated threats to media publishing potential defamatory or sedition materials, resulted in self-censorship among journalists and media.

On 23 July 2016 the new President of Tanzania, Magufuli, was nominated Chair of CCM. On that occasion, Magufuli openly stressed that his nomination to the presidency was a proof of the fact that Kikwete was not personally corrupted (Guardian on Sunday, 24 July). Since then, Magufuli has started rebuilding his networks within CCM. Interestingly, during the first phase of his presidency, Magufuli had often projected himself as “the president for all regardless of party affiliation” and referred to “my government”, not the CCM government. This was in striking contrast with all previous presidents (Kabendera, 2016 August). However, in this second phase of his presidency, while maintaining a form of embedded autonomy within CCM, Magufuli has started talking about the fact that “the party should not follow an individual member, but members should instead follow the party” and that “the party must be owned by its members, instead of the party being owned by just one member” (Guardian, 14 December).

At the 13 December 2016 meeting of the National Executive Committee (NEC) (hosted in the State House for the first time in recent memories) Magufuli managed to push through a profound reform of the CCM machinery apparatus. Building on a new rhetoric, Magufuli called for a “great transformation of *our* party” involving the reduction of the number of members in CCM decision-making organs at all levels; also, as Chair of CCM, Magufuli

⁸ In May 2015 Kikwete signed into law the Cyber Crimes Act. This law was deliberately vague and has since then allowed room to prosecute people ‘who may cause unrest’ through utterances or defame leaders.

promoted the centralisation and streamlining of the party's operations to cut costs. The CCM issued a press statement explaining that the National Executive Council has reduced the number of the following organs.

- NEC Members are reduced from the current number of 388 to 158 (Made up of party regional chairmen (36), NEC regional members (50), NEC national members (30), presidential appointee (7), CCM Youth Wing (5), Women's wing (5), Elders (5), Parliamentary representatives (5), Secretary to CCM's parliamentarians, and elected leaders such as speaker, PM. Vice President and Zanzibar President together with his vice president. The NEC meetings are now after every six months, instead of after four months.
- Central Committee (CC) is now 24 people, not 34 people anymore, many of which are presidential appointees. NEC meetings are now after every four months, not after two months.

The official press statement also announced that "these changes are aimed at taking our party back to the people and they have been approved unanimously by all NEC members who attended the meeting" (Guardian, 14 December 2016).

With these reforms Magufuli has clearly attempted to rebrand the party and rebuild its damaged legitimacy among large segments of the electorate. More critically, his reforms suggest that Magufuli is attempting to strengthen and institutionalise his control of the party, as well as reduce the policy money involved in the presidential primaries. In the same meeting at the Senate House, Magufuli restated how he did not spend a single shilling during CCM's presidential nomination process in 2015, while other candidates were alleged to have spent billions of shillings until the very last day, to buy votes and be shortlisted as the party presidential candidate. He also stressed that further measures were going to be taken at national, regional and district levels against all CCM members who sabotaged the party in the October 2015 elections. Finally 13 out of 26 heads of regions were newly appointed, while five were transferred (Guardian, 14 December 2016).

Within this new CCM power structure, the presidential appointment of key powerful people (which was also common in the bulldozer phase) signals a qualitative shift towards a more mature form of network politics in the Magufuli presidency⁹. The appointment of the former first lady Salma Kikwete as a member of the parliament on the 2 March 2017 is another example of the ongoing building up of a new coalition within CCM in support of Magufuli and his presidential nomination in 2020. Salma Kikwete is very popular in Lindi, Mtwara and Rufiji, and has significant political power brokering.

The development of new coalitions involving powerful organisations in the private sector is the other distinctive feature of the second phase of Magufuli's presidency. While maintaining an authoritarian approach, Magufuli has started signalling the private sector

⁹ President Mkapa is famous for warning those who were not supporting him that 'You must remember, all CCM candidates must be approved by the NEC and CC, I am the chair of both meetings, and many of the members of those meetings are my appointees'.

(including Tanzanian Asian businesses) to be willing to engage in deal-making, involving the allocation of rents for productive investments in industrial sectors.

In October 2016 Magufuli inaugurated a \$120 million fruit processing factory in the outskirts of Dar es Salaam¹⁰ (Citizen, 2016c). The investment was made by one of the most prominent Tanzanian Asian businessmen, Salid Salim Bakhresa, who had been involved in the missing container saga in November 2015 (see above). The inauguration of the new plant was made in a media event in which Magufuli endorsed Bakhresa's investment, and praised him as a model entrepreneur who creates jobs and pays taxes. Magufuli ordered TANESCO to ensure the new plant had access to the 10MW needed to operate at full capacity, and invited Bakhresa to expand his investment in fruit processing in other regions, promising him free land for that purpose. Magufuli also challenged Bakhresa, asking him to build a new sugar factory to produce industrial sugar domestically, again promising free land to plant sugarcane and to build a processing plant. The day after the inauguration, Magufuli also ordered that the confiscated 1000 tonnes of sugar owned by Bakhresa should be released. If this release followed a resolution of the eight months tax dispute is not known (Citizen, 2016c)¹¹. A few weeks later, on 21 October, the National Social Security Fund (NSSF) and PPF Fund turned Magufuli's request to link social security with industrialisation into a new plan for the establishment of a joint sugar processing factory at Mkunazini, Ngerengere in Morogoro Region. Magufuli, on more than one occasion, had asked the NSSF and PPF fund to divert their investments from the construction sector towards manufacturing industries.

The Bakhresa episode is particularly relevant for two reasons. Magufuli signalled the private sector that he was willing to allocate rents to private investors, but that he would discipline these rents. Secondly, he also showed that he would support the productive reinvestment of rents accumulated during previous governments¹². During his speech, he openly asked people who shaded huge amounts of money to invest them in new industries. Magufuli's message was reinforced by the Minister for Industry, Trade and Investment, Charles Mwijage, who announced new investments in the Coastal regions. In particular, the ongoing construction by Chinese investors (Goodwill Ceramic Limited) of a new tiles-manufacturing plant worth \$100 million, employing 1500 workers (plus other 3000 indirectly employed). This was again a way to signal the willingness of the President to engage with both domestic and foreign investors, beyond the traditional clientelistic networks which had traditionally favoured businessmen close to CCM factions. Moreover, the announcement of significant public investment in the sugar sector reveals Magufuli's willingness to start new forms of direct public investments operated by local authorities.

¹⁰ The investment in Mwanundege, Mukuranga District, has the capacity to process between 20,000 and 25,000 tonnes of fruit per year and employ 600 permanent workers, according to company officials.

¹¹ While he was inviting Bakhresa to invest in the sugar industry, Magufuli was at the same time engaged with the resolution of a longstanding dispute with the Swedish company Bagamoyo EcoEnergy (BEE). The dispute ended with the government revoking BEE's title of its land (Africa Confidential, 2017, vol 58). Sugar is a highly political issue in Tanzania, as it highlights the fundamental tensions between importers/smugglers and manufacturers involved in local production. In fact, the import/smuggling of sugar is also at the centre of the perennial tensions between mainland and the islands (Therkildsen, 2011).

¹² In December 2016, the Quality Group Limited (QGL), the largest conglomerate in Tanzania owned by the Manji family, commissioned a \$50 million sugar plants in Morogoro and Pemba.

This new approach to industrial policy signals a marked difference from both the first phase of Magufuli's presidency and previous governments. The following case is particularly relevant. During the last Kikwete presidency, in May 2015, the richest African businessman, Aliko Dangote, was given a generous incentives package to construct a \$500 million cement factory plant in Mtwara. The Tanzania Investment Centre (TIC) gave Dangote incentives including land, tax breaks for diesel imports, tax waivers on machinery, accelerated work permits for expatriates, and an allowance to import coal from South Africa. According to media coverage (Citizen, 2016d), some of these incentives became unsustainable, as the other three major players asked for the same, pointing to the unfair competition in the sector. Only six months after Dangote's cement production started, the price of cement in Tanzania collapsed (a 20 percent drop to \$4.50 for 50Kg), and Dangote managed to capture one fourth of the domestic market.

When Magufuli banned the import of coal, arguing that the local coal industry should be linked forward, Dangote lamented that the deal with Kikwete had not been honoured. The cement factory stopped producing in November 2016, for unspecified technical reasons. It is widely thought that this decision was made to force the government to negotiate a deal. The negotiation saw the personal involvement of Magufuli, who reached an agreement with Dangote on 13 December 2016. While the government did not disclose the terms of the deal, it is believed that Magufuli adopted the same strategy used by the Ethiopian government to strike a deal with Dangote for a similar cement plant (supplying the firm with electricity at a subsidised rate). Dangote plans to build three other cement plants in Tanzania. The head of the Tanzanian Investment Centre (TIC), Juliet Kairuki, was replaced after this event for corruption allegations (East African, 2016 and 2016b).

The cement industry will play an increasing critical role in the next five years, given the potential boost that cheap cement can give to the construction and infrastructure sectors. In fact, another example of the industrial policy approach embraced by Magufuli can be found in the context of infrastructure building. In January 2017, Magufuli engaged with the Turkish government and managed to get a concessional loan for the construction of a 400 kilometre stretch of the envisaged 1,200 kilometre standard-gauge central railway, from Dar es Salaam to Mwanza. Magufuli also pointed out that, in fact, a Turkish company was among the shortlisted contractors for this stretch. Interestingly, with this decision, Magufuli overturned the original agreement reached with the Chinese Export-Import (Exim) Bank. Exim Bank had agreed to provide Tanzania with a \$US 7.6bn loan to build the entire standard-gauge railway. A consortium of Chinese companies appeared to have won the entire procurement contract. Magufuli raised some concerns about the original deal with Exim and the Chinese consortium, and a number of government officers are now facing abuse of office charges over the claims (Citizen, 2017). It is believed that Magufuli is now intending to contract with different companies for different stretches of the railway and, in this way, to introduce some competition among the bidders.

Finally, Magufuli has gained a central role in the East African Community, where the political and economic relationships between Uganda, Rwanda, Kenya, Burundi and Tanzania have been evolving in his favour (Cooksey, 2016). In March 2016 Tanzania and Uganda had already agreed to build a \$4 billion pipeline to transport crude oil from Kabale in Uganda, to

Tanga Port in Tanzania's Indian Ocean coast. In May 2016, building on his personal relationships with Rwanda's President Paul Kagame, Magufuli managed to change the original plan agreed in 2013 in favour of Tanzania (against Kenya). The new Dar es Salaam-Isaka-Kigali/Keza-Musongati (DIKKM) standard gauge railway (SGR) project is expected to be completed by March 2018 (total cost \$5.2 billion). Finally, the forced movement of the government to Dodoma by the summer of 2017, will open opportunities for the development of the construction industry and the involvement of African capitalists.

3.6. Tanzania Political Settlement evolution and scenario analysis

Changes in the relationships between Magufuli and CCM (institutionalisation of power), and between Magufuli and the private sector (disciplining of rents via deals making), reveal Magufuli's aspiration to construct a developmental state coalition and his pragmatic approach. However, there are a number of factors which could undermine his efforts and lead to different trajectories in the Tanzanian political settlement.

Figure 14 provides a snapshot of the evolution of the political settlement in Tanzania since its independence in 1961. It also shows the current configuration of the Tanzanian political settlement under Magufuli. In particular, it shows the two main phases characterising Magufuli's presidency, from November 2015 to March 2017. Starting from this framework, and our political settlement analysis, we can identify four main potential future scenarios and assign to them different probabilities. These probabilities depend on a number of factors, which we discuss below.

Scenario 1: Vulnerable authoritarian coalition (scenario, 35%)

Under the first five years of Magufuli's presidency the political settlement becomes increasingly authoritarian and the repression of the opposition increases in preparation of the 2020 presidential elections. While excluded factions retain some form of power/resistance to authoritarianism, they fail to organise an effective response to Magufuli. However, Magufuli finds himself unable to develop his industrialisation plan, and does not manage to deliver sufficient results to win an open presidential election, thus, he has to increase the pressure over the excluded factions, both within and outside CCM.

Scenario 2: Competitive clientelism with Magufuli as CCM presidential candidate (scenario, 35%)

Under the first five years of Magufuli's presidency, the political settlement shifts back to a more competitive clientelistic settlement, while both the oppositions and internal lower factions within CCM increase their power. Despite the mounting discontent within the CCM apparatus, Magufuli is able to run as presidential candidate for CCM. Lowassa has already announced his willingness to run as presidential candidate for CHADEMA in 2020. The elections could see a strong opposition challenging the ruling coalition and potentially overturning it, especially if CCM internal lower internal factions reach a critical level of

fragmentation. Given Lowassa's health conditions and age, a trusted person with a strong business network could take his position, in case Lowassa's candidature were to be perceived as weak.

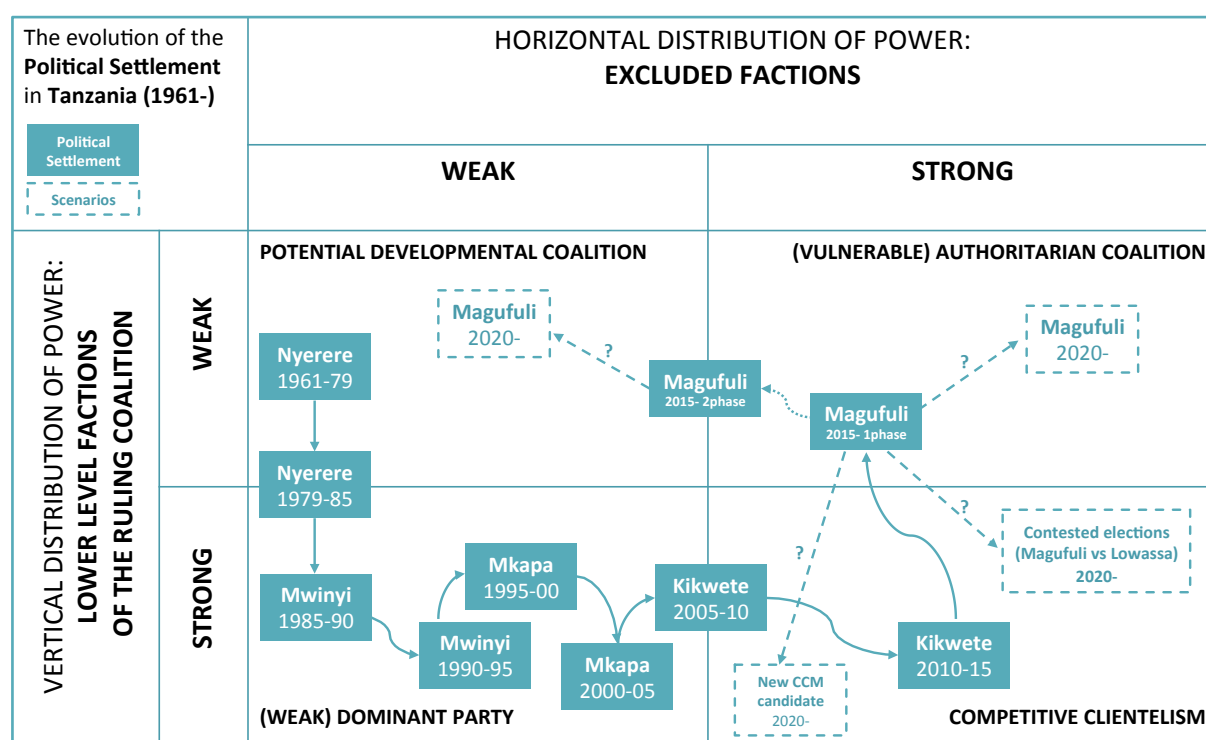
Scenario 3: Potential developmental coalition (scenario, 25%)

Under the first five years of Magufuli's presidency, the institutionalised control of power allows Magufuli to exercise control of the lower level factions within CCM, and the implementation of the industrialisation agenda starts delivering some tangible results. Magufuli manages to discipline rents and build up a coalition with emerging powerful and productive organisations. The opposition fragments and becomes weaker.

Scenario 4: Competitive clientelism with new CCM presidential candidate (scenario, 5%)

Magufuli finds himself unable to develop his industrialisation plan, and does not manage to deliver sufficient results. New lower level factions within CCM emerge and become so powerful that Magufuli is not reconfirmed as CCM presidential candidate for 2020. As a result, the ruling coalition arrives to the 2020 election weak and fragmented. Given the extreme power that the constitution assigns to the institution of the presidency (including the support of the military and intelligence) this is a very unlikely scenario.

Figure 15: Change and persistence in the Tanzanian political settlement since independence



Source: Author

Five main factors or dynamics will determine the trajectory of Magufuli's presidency and the reconfiguration of the political settlement in Tanzania.

First, the fact that Magufuli's aspiration is not fully articulated within a clear strategy. As already pointed out by the influential Tanzanian economist Sam Wangwe "the integration of all these policies in a common national framework has not been adequately ensured" (Citizen, 4 May). The Second Five Year Development Plan (FYDP 2016-2022) was launched in June 2016, although its implementation has turned out to be more complex than expected.

Second, despite the shift towards a more pragmatic approach in building coalitions for industrial development, the dialogue between Magufuli and the private sector might remain problematic. In December 2016 the CEO Roundtable's open letter to the president stressed six main problems: (i) the destabilisation of the financial sector (CRDB Bank, Tanzania largest bank reported Sh 1.9 billion losses due to non-performing loans); (ii) the exclusion of the private sector from the government policy making process (especially with respect to the 5YDP); (iii) the energy crisis; (iv) the exclusion from negotiations on the Economic Partnership Agreement with the European Union; (v) exclusion from the dialogue on land policy reforms; (vi) the mandatory requirement for telecom companies to list in the DSE.

Third, CCM is in a vulnerable transition, and the lack of a credible plan for generating party income for the next election might lead to the emergence of new factions, and again a fragmentation within the ruling coalition, with the lower level factions increasing their power. Magufuli's austerity measures within public offices introduces a related element of fragility. Many civil servants are also part of the CCM party machinery. As discussed above, the CCM machinery remains the most critical competitive advantage of the ruling coalition at the election. The anti-corruption measures and the cut to public office expenditures will certainly affect the functioning of the civil servants' apparatus, who traditionally receive low pay.

Fourth, with the unprecedented movement of Lowassa to the opposition, CHADEMA has strengthened significantly, despite Magufuli's repression of the oppositions. Lowassa has brought to the opposition camp a critical amount of "relational capital", which could be mobilised during the elections.

Finally, despite Magufuli's anti-corruption initiatives delivering some results, his "vertical" approach to anti-corruption has already faced a number of limitations. The need for incremental and sector specific interventions is made evident by the fact that cutting heads has not had any impact on lower levels of the pyramidal organisational structure of the ruling coalition. Central corruption nodes have retained their power and will resist changes, affecting the developmental outcome of Magufuli's government.

4. Anti-corruption framework and corruption evidence in Tanzania.

4.1. The legal and institutional anti-corruption framework

Tanzania has developed its legal and institutional anti-corruption framework since 1971, when the *Prevention of Corruption Act* was introduced. The Act was amended in 2002 and again revised in 2007 to become the *Prevention and Combating of Corruption Act (PCCA)*. With the 2007 revision of the act Tanzania ratified the [United Nations Convention against Corruption](#) (UNCAC) and the [African Union Convention on Preventing and Combating Corruption](#) (AUCPCC). Within the PCCA legal framework, corruption is understood as an economic offence, and provision exists for imprisonment, with no financial penalties for economic crimes except for the recovery of assets. The legal framework is also complemented by a number of other specific acts, mainly created under the Mkapa presidency (1995-2005). They are: the *1995 Public Leadership Code of Ethics Act* (amended in 2001); the *2001 Public Finance Act*; the *2002 Public Service Act*; the *2004 Public Procurement Act*; the *2006 Anti-Money Laundering Act* (amended in 2012); the *2008 Public Audit Act*; finally, the *2010 Elections Expenses Act*.

Tanzania's first anti-corruption agency dates back to 1971, when Act No. 16 mandated the establishment of an *Anti-Corruption Squad*, which came into existence in 1975 (Government Notice No. 17 of 1975). The *Anti-Corruption Squad* changed its name to the *Prevention of Corruption Bureau (PCB)* in 1991, and the organisation was placed de jure under the President of the United Republic of Tanzania (URT). Finally, under the new PCCA legal framework, in 2007 the PCB was renamed as the *Prevention and Combating of Corruption Bureau (PCCB)*. The PCCB is an independent body under Section 5 of the PCCA. The director general and the deputy director are appointed by the president. The mandate of the PCCB is to raise awareness and guide government on anti-corruption issues as well as arrest, investigate, initiate proceedings, and prosecute cases of corruption, but only with the permission of the director of public prosecutions. The mandate of the PCCB applies only to mainland Tanzania. In Zanzibar, anti-corruption measures are led by the Zanzibar Anti-Corruption and Economy Crimes Agency.

A number of anti-corruption initiatives are also conducted outside PCCB. First, the *Controller and Auditor General (CAG)* is responsible for auditing ministries, departments, central and local government, government-owned corporations, institutes and public agencies. Second, the *Public Procurement Regulatory Authority (PPRA)* and the related *Public Procurement Appeals Authority* are responsible for the “application of fair, competitive, transparent, and non-discriminatory and value for money procurement standards and practices”. The PPRA reports to the Minister of Finance. Third, the *Ethics Commission* is in charge of implementing the Leadership Code of Ethics, including the mandatory collection of annual reports on the assets of government members. Finally, the *Commission for Human Rights and Good Governance (CHRGG)* can collect citizens’ complaints and start investigations (with the only exception of the President’s office).

Against this legal and institutional framework, the 1996 Report of the Warioba-led Commission against Corruption established by President Mukapa (see section 3) laid the foundation for two rounds of national anti-corruption strategies¹³. The first National Anti-Corruption Strategy and Action Plan (NACSAP I) was implemented from 2000-2005, and led to the establishment of PCCB offices in all districts, alongside strengthening other institutions. The following NASCAP II (2006-2010) was articulated around eight components: (i) combat corruption by addressing its root causes; (ii) strengthen anti-corruption mechanism at all Ministries, Departments and Agencies; (iii) introduce systems of integrity accountability and transparency in Local Government Administration (LGA); (iv) mainstream and empower private sector into anti-corruption activities; (v) mainstream and empower civil society organisations and non-state actors into anti-corruption processes; (vi) raise awareness of anti-corruption; (vii) build synergy between NACAP and Legislative, Judiciary Integrity Programmes; and, (viii) enhance the capacity of PCCB, GGCU, and the Director of Public Prosecution to deal with corruption, and to manage and implement NASCAP (Mukukuta Report, 2010: 97).

Starting from 1998 Tanzania has also implemented a multi-phased reform – *Public Financial Management Reform Programme (PFMRP)* – aimed at attaining sound financial management and discipline in public service delivery, with a specific focus on financial accountability and transparency. In particular, during its first phase (1998-2004) PFMRP I focused on minimizing resource leakage, strengthening financial control and enhancing accountability by reforming budget process and introducing an Integrated Financial Management System (IFMS). The introduction of a number of tools, such as a cash budget and centralised payment system, public expenditure reviews, expenditure tracking systems, delivered significant results by the mid-2000s, at least in terms of bureaucratic corruption.

4.2. Corruption evidence and types of corruption

Despite its legal and institutional framework, and implemented reforms, corruption has remained a permanent feature in the development history of Tanzania, and has been one of the major forces driving changes in its political settlement (see section 3). In particular, as stressed by Hazel Gray (2015:3): “[t]he persistence of grand corruption in public finance despite these reforms points to the fact that the technical improvements in the budgeting process did little to address the underlying drivers of the phenomenon in Tanzania”. Moreover, while many corruption processes in public finance and rents capture occur within the official government budget, there are also off-budget transfers and rents distribution. In Tanzania off-budget expenditures “took the form of covert and illegal payments that were officially ignored or denied”, including both forms of petty corruption, and grand corruption at higher levels of the pyramidal organisational structure (Gray, 2015:3).

¹³ Among its main recommendations, the Warioba Report stated: “The fight against corruption is everyone’s responsibility and especially leaders. Every leader must be seen to be clean before the people; he should be seen to take stern measures against all corrupt elements in his area of leadership; and if he cannot do so, he should resign even if he himself is not accused of being corrupt. The struggle against corruption should not be left to the President alone.” (Warioba report summary)

The following table 2 provides an overview of the incidences of corruption reported in Tanzania to the anti-corruption authority. Between 1995 and 2012 PCCB received 51,964 allegations. Since the new legal Act (PCCA 2007), however, only 4.9 per cent of the reported cases were filed in court (the number of convictions against corrupt offenders since 1995 was less than one per cent of cases reported). Moreover, the total amount of recovered assets is relatively limited. The most important feature here, however, is the high degree of heterogeneity among the reported cases.

Table 3: Incidences of corruption reported, 1995-2012

YEARS	Allegations received	Cases investigated	Completed investigation files	Administrative actions taken	Files transferred to other agencies	New cases into courts	Total cases prosecuted	Conviction cases	Acquittal cases	Saved money/ assets recovered
1995	261	261	145	-	-	8	16	1	7	2,706,800,000/=
1996	513	513	245	-	-	21	34	2	9	1,900,651,000/=
1997	510	510	289	-	-	9	18	1	4	6,932,950,000/=
1998	545	545	200	-	95	15	31	2	6	9,300,478,000/=
1999	1116	1116	304	-	209	62	47	9	25	14,795,169,650/=
2000	1244	1244	276	-	234	49	42	6	3	11,100,000,000/=
2001	1354	1354	285	1	154	57	53	-	-	2,500,000,000/=
2002	1383	1383	732	42	222	52	191	12	12	2,714,199,000/=
2003	2285	1796	540	21	36	51	178	9	28	3,800,266,000/=
2004	2223	1149	458	126	25	60	202	6	8	4,000,216,000/=
2005	3121	677	540	111	2	50	218	6	10	2,500,600,000/=
2006	6320	1528	1688	209	496	71	251	18	28	1,301,492,528/=
2007	8235	1266	2015	280	460	196	352	35	45	1,580,099,081/=
2008	6137	928	936	74	184	147	416	37	71	13,203,459,357/=
2009	5930	884	1175	40	152	222	463	46	73	436,132,336/=
2010	5685	870	924	29	135	224	587	64	98	10,123,258,300/=
2011	4765	819	773	30	84	193	466	52	61	4,638,939,558/=
2012 (Jan)	337	39	386	1	4	25	30	2	2	3,641,854/=
TOTAL	51964	16882	11911	964	2492	1512	3595	308	490	93538352664

Source: PCCB/HQ, Feb 2012; APRM, 2013.

The evidence on corruption in Tanzania points to the existence of multiple types of corruption, involving different sectors and activities in the economy as well as multiple deep-rooted, sometimes overlapping, clientelistic networks. Khan (2006) develops a taxonomy of four main types of corruption, which makes the high level of corruption heterogeneity tractable, both from an analytical and policy point of view. Khan introduces a distinction between: (i) *market restriction-driven corruption*; (ii) *state policy-distorting corruption*; (iii) *political corruption*; and, (iv) *predatory corruption*.

Building on this analytical distinction, the evidence suggests that Tanzania has been affected by both *state policy-distorting corruption* and *market restriction-driven corruption* (since its independence), and increasingly by *political corruption* (since the privatisation and liberalisation of the economy, as well as the transition to a clientelistic competitive settlement under the Kikwete presidency, as discussed in section 3). *Predatory corruption* has been almost absent in Tanzania throughout its post-independence history, as the political settlement never reached high level of violence, and the ruling coalition managed to contain the rising tensions.

The following corruption cases provides evidence of these different types of corruption, also showing the potential co-existence of more than one type of corruption within the same case. In particular, a number of *state policy-distorting corruption* cases has turned into *political corruption* since the late 1990s. Moreover, given the economic policy regime in Tanzania and the proliferation of public authorities “specialised” in resource extractions, *market-restriction driven corruption* has been pretty common in sectors and activities related to trade/ports, land rights, certification and licencing (TPSF, 2017). This type of corruption has developed alongside widespread *state policy-distorting corruption* and *political corruption*.

Case 1: The External Payments Arrears (EPA) scandal, 2005 (Mkapa/Kikwete presidency)

The EPA account at the Bank of Tanzania (BOT) was originally introduced to help service balance of payment. Local importers would pay into the EPA account in shillings, foreign companies would then be paid by BOT in foreign currency. Following an independent audit, Ernst and Young found a number of ‘dubious payments’ to 22 local companies for a total amount of TShs 131 billion. The BOT Governor Daudi Balali had authorised the payments and was then forced to resign. In 2008 Beno Ndulu became the new governor (reconfirmed under Magufuli). The local companies who had received the money were owned by prominent businessmen and some senior members of CCM. By 2008, following on from Kikwete’s ultimatum/amnesty, a significant amount of money was repaid, with the exception of the major recipient company (Kagoda Agriculture Ltd) with alleged strong links with CCM. The director of the company was later arrested. As reported in Cooksey (2011), it is widely believed that the money was used to finance the CCM election campaign in 2005.

Case 2: The Bank of Tanzania Twin Towers scandal, 2006 (Mkapa/Kikwete presidency)

In 2006 the Bank of Tanzania (BOT) was investigated for their enormous spending on the construction of the BOT Twin Towers (a 17-storey main office building). The cost of the project increased from \$37 million in 1997, to \$70 million in 2000 and finally \$345 million at completion. The construction was done by the Group Five Ltd, a South African construction firm owned partially by South African tycoon Tokyo Sexwale. The Director of Personnel and Administration and the Twin Towers project manager were accused of causing a loss of more than \$170 million. The BOT Board was accused of having failed to protect public interest.

Case 3: The Richmond/Dowans scandal, 2006 (Kikwete presidency)

In 2005 TANESCO advertised a tender for a 100MW emergency power plant to convert gas from Songo Songo. Despite the fact that all the bidding companies were found unsuitable, both in terms of their capability and financial surety, Prime Minister Lowassa intervened and awarded the contract to the Richmond Development Company LLC. This company had already a poor track-record in the construction of a pipeline from Dar es Salaam to Mwanza. Not surprisingly Richmond failed again, this time in securing financial backing for the industrial operation. Given the energy crisis, the government directly backed Richmond. By the end of 2006 it became evident that the company was not able to deliver, and that there were potential irregularities in the tendering process. As reported in *Tanzanian Affairs* (2010), Richmond only invested \$30 million in generators for a total capacity of 20MW, and tried to obtain more than \$115 million. A number of investigations followed: first, the anti-corruption authority did not find any evidence of corruption. However, the Parliamentary Commission established by Kikwete found evidence of corruption, to which the government responded by exonerating all politicians and civil servants involved in the deal. As a result, in 2008, Lowassa resigned from the government. Interestingly, in 2009 the TANESCO tender failed to attract any serious bidder.

Case 4: The Independent Power Tanzania Limited (IPTL), 1995 (Mkapa presidency) and the Tegeta Escrow Account scandal, 2014 (Kikwete presidency)

In 1995 TANESCO signed a large and significantly expensive power supply contract with IPTL, a joint venture between Mechmar Corporation of Malaysia (70%) and VIPEM of Tanzania (30%). Since then, a number of investigations on the tendering process have been conducted and the case ended in front of the International Centre for Settlement of Investment Disputes (ICSID). The charges of corruption were finally dropped at the level of the ICSID due to the failure of the government to provide substantial evidence in time. However, in 2014 further allegations of corruption involving IPTL and an escrow account emerged. The Public Accounts Committee pointed to fraudulent payments linking TANESCO to the energy firm and a number of CCM politicians. The Prime Minister Mizengo Pinda was pressured to resign.

Case 5: The Stanbic/Standard Bank scandal, 2015 (Kikwete/Magufuli presidency)

In 2012 the Tanzanian government borrowed \$600 million through Stanbic Bank (subsidiary of Standard Bank). The private placement of sovereign debt was related to the government's five-year development plan and the need to finance electricity, water and other infrastructure work in Tanzania. In November 2015 the bank agreed to pay \$ 36.2 million in fines and repayments of bribes and profits for an alleged bribery scandal in Tanzania. Apparently, the originally agreed fees were raised from 1.4% to 2.4% and the difference was transferred to a local Tanzanian company called EGMA. The chairman of the company was Harry Kitilya, former Stanbic Bank employee, but more critically TRA's Commissioner General at the time of the deal. In a departure from the Kikwete time, Magufuli immediately ordered the arrest of Kitilya who is currently facing corruption charges. Moreover, two weeks after, the Director General of the PCCB, Edward Hoseah, was removed and replaced by Valentino Mlowola, a career policeman who had risen to the position of Director of Criminal Intelligence.

According to the Afrobarometer (see figures 16 and 17 below), 66 percent of Tanzanians think that, over the last few years, cases of petty and grand corruption have increased a lot, while 15 percent believe they have remained at similar levels. Only 13 percent perceive a reduction in corruption. More critically, the perceived performance of the government in fighting corruption has been increasingly bad between 2005 and 2014.

Figure 16: Perceived change in level of corruption in Tanzania, 2014

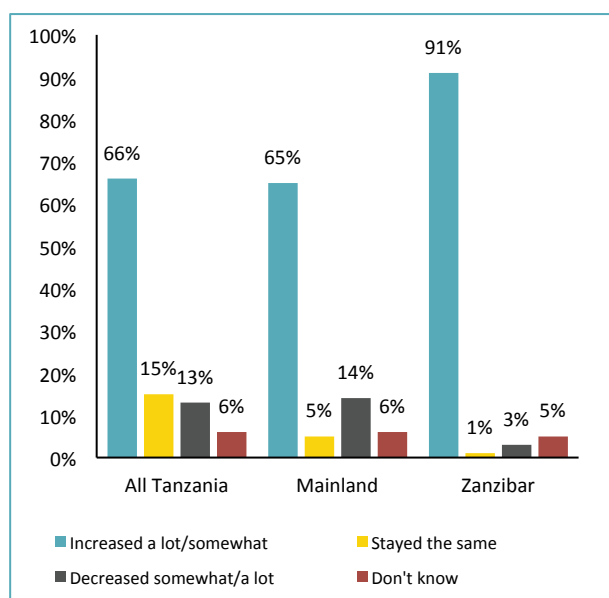
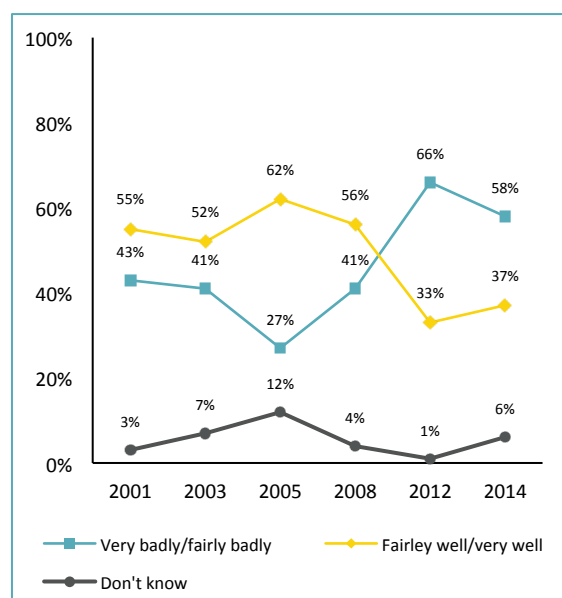


Figure 17: Popular evaluation of government's performance in fighting corruption



Source: Aiko (2015)

As documented in section 3, since his electoral campaign Magufuli's presidential and government agenda has been dominated by his anti-corruption crusade. In fact, Magufuli's anti-corruption approach reflects the nature of his *vulnerable authoritarian coalition* and, thus, the current political settlement in Tanzania. The delivery of his anti-corruption agenda has mainly relied on the following three set of strategies:

- **Rule by fear:** blaming and shaming allegedly corrupted people in both the public and private sector and direct involvement in anti-corruption operations, backed by the police and the intelligence.
- **Punishment:** removing people from key positions in public offices and authorities, and prosecution enforcement (also in the form of ultimatums and amnesty agreements).
- **Centralisation:** Reducing potential leakages and rents capture from the centre to the regions/districts by direct allocation of resources (e.g. fertilizers, education) and centralisation in the President's Office of rents allocation functions (e.g. sugar import licence).

While the evidence is still scattered, Magufuli's systemic strategies may have achieved some results. However, there are reasons for concern about the *sustainability* of these strategies (and achieved results) as well as their *effectiveness* in terms of development outcomes. The

main reason for these concerns is that Magufuli's anti-corruption strategy is mainly attacking the manifestations of a much more diffused and diversified set of corruption processes, unfolding in different sectors and activities, as well as involving different clientelistic networks and powerful organisations.

Without addressing the specific types of corruption processes and rents capture mechanisms entrenched in the current political settlement and economic structure, the replacement of public officials or their punishment does not automatically lead to any development outcome. If these anti-corruption strategies do not start delivering better development outcomes, for example a diffused improvement of service delivery in education and health or incremental improvements in the distribution of rents for productive investments, the anti-corruption strategy will soon face increasing resistance.

Finally, the possibility of transitioning from a *vulnerable authoritarian coalition* towards a *potential developmental coalition* will depend critically on the combination of systemic interventions with sector-specific incremental strategies. The identification and implementation of sector-specific anti-corruption strategies that are *feasible* in the existing political settlement, and that are able to deliver significant incremental improvements in development outcomes – *high impact* (Khan et al, 2017) - would address the shortcomings of the existing anti-corruption efforts in Tanzania, ultimately improving their effectiveness and sustainability¹⁴.

¹⁴This approach resonates with Mufuruki's statement that "the fight against corruption must go hand in hand with innovative efforts to provide jobs and increase production" (29th Annual Camden Conference "The New Africa", Feb 2016)

5. Strategic opportunities for anti-corruption evidence (ACE) strategies in Tanzania

The Anti-Corruption Evidence Programme (ACE) was created by DFID to tackle corruption and lead to more effective, evidence-based anti-corruption initiatives. The programme will fund research projects in Bangladesh and Nigeria, in addition to Tanzania. Our alternative approach to anti-corruption looks for *feasible* and *high-impact* anti-corruption opportunities, in areas where changes in policies and interventions may be potentially supported by some powerful players who see ‘horizontal enforcement’ as being in their own interest (as opposed to ‘vertical enforcement’ by government agencies). Clearly these opportunities have to be carefully sought out (Khan et al, 2017). In section 2 we have highlighted how Tanzania’s structural transformation critically depends on its capacity to address a number of critical bottlenecks and constraints in the productive sectors of the economy. The political settlement analysis in section 3 has shown how in assessing the feasibility of anti-corruption strategies we will have to take into consideration the distribution of interests among powerful organisations in different sectors of the economy, and the distribution of rents. In these sectors there may be productive interests who may be induced to support more productive strategies in their own interest, with judicious changes in policies, incentives or the organization of appropriate collective action.

In our scoping studies we looked for such opportunities, keeping our analyses of economic challenges and the political settlement in mind. In consultation with DFID, other development partners, our country research partners, and using our own knowledge of the country and past research, we have identified a series of research projects that will aim to rigorously identify feasible and high-impact anti-corruption opportunities. The recent reports (May 2017) presented by the Tanzanian National Business Council and Tanzanian Private Sector Foundation seem to validate the sectoral priorities and corruption issues addressed within ACE. For example, the following table summarises a number of bottlenecks inhibiting agricultural transformation in Tanzania, as they emerged from engagement with 50+ stakeholders in the sector.

Table 4: Mapping of bottlenecks inhibiting agricultural transformation

	Land Policy	Trade Policy	Agro-Inputs	Taxation	Budget	Immigration	Access to Finance	Infra-structure	Water Use	Energy	Climate change	Nutrition
Government of Tanzania												
Private Sector Organizations												
Other Non-State Actors												
Development Partners												

LEGEND:	Lower priority	←	●	●	●	→	Higher priority	Policy issue	Non-policy issue
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Source: TPSF, 2017

We also took care to include projects in a number of significant sectors of development activity: public goods and infrastructure, productive sectors and skills, health and health delivery and governance agencies and media. The opportunities in each of these categories were not identical in our three study countries (Bangladesh, Nigeria and Tanzania), and here we report the types of sectoral anti-corruption opportunities that we want to study in the case of Tanzania. Each of our projects is expected to generate evidence about feasible anti-corruption strategies that are likely to fall into one of four types defined by our ACE anti-corruption strategies clusters. These strategy clusters are summarized in Figure 15 and explained in more detail in Khan et al., (2017). A number of them are presented here to highlight the research approach and expected results.

Under public goods and infrastructure we have identified three areas for evidence-based investigation of anti-corruption opportunities. Let's consider the **power sector** as an example of this first group of projects. In the past 20 years, the production and distribution of energy in Tanzania has faced enormous challenges, including capacity shortages, lack of private investments, and low level of reliability of the power supply. The Tanzanian government has tried to remedy the situation by proposing several investments which have had limited impact so far. This is mainly due to the fact that structural problems affecting the sector have not been tackled. First, the governance reform of Tanesco has proven extremely difficult given entrenched interests in the sector. Second, long-term, large-scale productive investments in the power generation have been constrained by misaligned incentives and significant rent capture possibilities, while less efficient and more costly investments have multiplied. Preliminary scoping work suggests that existing energy and procurement policies dissuade high-capability companies from entering the energy sector, expanding the existing production capacity and investing in alternative sources of power generation. Policies that discourage efficient production generation also create incentives for corruption, as less capable but politically connected companies engage in the construction of expensive and

relatively less cost-efficient power plants. The study aims at identifying potential governance reforms in Tanesco and changes in procurement policies to attract high-capability companies to invest in cost-efficient energy production technologies, with targeted measures for companies operating in export promotion zones (or similar industrial agglomerations). Energy production cost models and analyses will be used to compare the cost-efficiency of different energy production technologies, and test fiscally credible incentives and energy pricing for producers, including access to long-term finance for power production and the potential introduction of captive power production plants (CCP) between 20 and 50MV in Export Promotion Zones. Political economy analysis will assess the feasibility of governance reforms within Tanesco and between Tanesco and power production producers, including historical players like Songas, as well as new investors.

Figure 18: Strategic opportunities for anti-corruption evidence strategies in Tanzania

ACE Sectors ACE Strategies	Public goods & infrastructures	Productive sectors & skills	Health & health care delivery	Governance Agencies	Media
1. Aligning incentives	Power (BNT)	Business Groups (BNT) Skills (BNT) Cotton and Textile (T) Food value Chain (T)	Health providers (BNT)	Tax in EPZs (T)	
2. Designing for differences		Port/Smuggling (T)	Pharmaceutical Production (BNT)		
3. Building coalitions		Secondary Education (BNT) Fertilizers (NT) Extractives (T)	Health Social Accountability (BNT)		Media (BNT)
4. Resolving rights	Land (BNT)				

Notes:

1. Incentive restructuring strategies

Here, the focus of the anti-corruption strategy is to change the relative returns to activities in different parts of a connected production or value chain to create support for specific anti-corruption initiatives.

2. Strategies enhancing compliance by addressing differences in organisational interests

Here the focus of the anti-corruption strategy is to address differences in the interests and capabilities of different types of organisations to enable the potentially compliant to comply and selecting appropriate strategies for dealing with others.

3. Strategies of organising collective action

The primary focus of these strategies is to organise groups to engage in effective collective action to support the enforcement of particular aspects of an anti-corruption strategy.

4. Strategies addressing contested rights

Some corruption problems emerge because there are overlapping or contested rights and the only resolution available to the contesting parties may be to engage in corruption as a way of resolving disputes. See Khan et al. (2017) for more details.

(T): projects that only cover Tanzania, (NT): comparative projects covering Nigeria and Tanzania; (BNT): cross-country projects that cover Bangladesh, Nigeria and Tanzania.

Source: Author

The **port and smuggling project** will focus on one of the most critical areas of corruption in Tanzania. Despite a number of recent studies assessing inefficiencies and some corruption issues in the port, the evidence on corruption dynamics at the port remains scattered. While new investments in the port and a reform of its governance would be critical to address these inefficiencies and losses, investments will not be sufficient if corruption is not reduced. The World Bank Report points to the fact that corruption is “both a source of inefficiency and a direct result of inefficiency.” Our study aims at addressing this corruption-efficiency nexus and will adopt a two-pronged, mixed-method approach. First, we will conduct in-depth rents mapping analysis for specific commodities (rice and sugar) to understand smuggling and underreported imports. This will allow us to develop a more fine-tuned understanding of the specific mechanisms, rents flows and capture processes in the port. Building on our analysis, we will then refine existing quantitative methodologies to estimate evasion of custom duties for different categories of products, by using mirror statistics techniques. By computing the mismatch between revenues and reported trade flows for a number of selected commodities we aim at developing a tool for tracking improvements in the functioning of the port authority. Finally, we will use this evidence to develop coalitions among producers in the rice and sugar industries for collective action-based anti-corruption strategies. Larger producers with more influence have entered these sectors and the government has made sugar smuggling one of its priorities since 2015. The evidence we produce may help to change the political economy of the rice and sugar sectors, in which a few influential importers so far have had sufficient political power to generate substantial rents from the import of these two important food commodities.

Under productive sector and skills we will focus on a number of key areas including skills development and fertilizers subsidies. The shortage of **technical skills** in Tanzania has been one of the most fundamental constraints to its industrial development. Vocational training institutions are funded by a skills levy collected by the Tanzanian Revenue Authority. One third of the skills levy is spend on TVET, while two thirds remain with the government. From the ATE report, it is shown that one of the key constraints in skill development is that the skills development levy is not implemented nor distributed transparently. At the same time VETA remains severely underfunded, and the lack of qualified teachers and training infrastructure have been identified as a key bottleneck in the provision of education and skills training. Moreover, given the dramatic shortage of skills, and despite local content policies restricting the employment of foreign workers, companies in Tanzania have increasingly relied on foreign workers and bribed the Immigration Agency to provide illegal short-term work permits. This corruption has a high impact on the viability of the local content policy, as well as possibly undermining relationships between locals and migrants. The project aims at identifying new skills development models involving both firms and vocational training institutions, as well as the restructuring of the current fiscal costs and incentives for skills development. The adoption of discrete choice experiment (DCE) techniques will allow testing the feasibility of these different models among different stakeholders and tailor different models for different sectors and firm-types.

The project on **fertilizers** will examine centralised and technology-enhanced distribution modalities (e-wallet and parastatal fertiliser company respectively) that have recently been introduced into fertiliser subsidy programmes in Tanzania and Nigeria, two of the biggest in Africa. The new distribution modalities are intended to reduce leakage of vouchers via local

government administrations by bypassing intermediations, but they present their own challenges. Our hypothesis is that these modalities will at best achieve partial success and that they might “shift” leakages along the distribution chain, including triggering new corruption dynamics involving the private sector. The study will combine large-scale household surveys, key informant interviews at multiple levels, and detailed process analysis of corruption - rents mapping and leakages identification - along the distribution chain. Political economy analysis will finally help to frame issues arising from the prior quantitative and qualitative work, and assess the feasibility of anti-corruption strategies. It will be amongst the first studies to explore the new modalities in both countries, and will be both unusual in its detailed comparative analysis of two major programmes, and rare in its combination of technical and political economy analysis of the distribution modalities.

Under the governance area, we will focus on the alignment of interests and disciplining of rents in **Export Processing Zones (EPZs) and Special Economic Zones (SEZs)** in Tanzania. The EPZs seek to attract new export oriented foreign and local investments to create international competitiveness for export-led economic growth. The SEZs aim to help to transform Tanzania into a globally competitive country by accelerating domestic production, promoting exports and generating employment. Thus, the EPZ/SEZ programmes have the potential to become effective industrial policy instruments for the government’s renewed industrialisation efforts. However, unproductive rent seeking and corruption presently weaken that potential. The research project therefore aims to understand the mechanisms of rent capture in EPZ/SEZ, focusing on the opportunities to reduce corruption/rent-seeking offered by incentive restructuring and coalition building between powerful organisations in the private sector willing to invest in Tanzania, and government officials under pressure to deliver a more productive allocation of rents. In building this coalition, the project will address the organisational heterogeneity of firms within EPZ/SEZ and both market-constraining and state-constraining corruption dynamics.

Finally, under the health sector we will look at **pharmaceutical production**, and the reasons underpinning its decline in Tanzania. A series of interacting factors, some external, some policy-influenced and corruption-related, have driven this decline. VAT on inputs (with slow reimbursement), combined with difficulties pharmaceutical manufacturers experience in obtaining exemption from duties, delays by TFDA in testing and registering products, and unfair competition, have discouraged investments and led to the decline of the sector. Specifically, local firms are moving out of production of basic affordable medicines (e.g. basic antibiotics), as import prices had fallen below local production costs, or even below full materials costs, suggesting the dumping of Asian production, smuggling and risks associated with counterfeiting. The study will aim at tracking these corruption-related processes and identify a combination of policy-supporting local producers via public procurement, while enforcing counterfeiting regulations. The government is already considering a reform of the procurement of medicine and collective action among local producers could be mobilised to reduce smuggling and counterfeiting. Our hypothesis is that by supporting the local producers via procurement reforms, it is also possible to align government and private sector interests in view of reducing smuggling of drugs and counterfeiting.

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